HIGHWOODS PROPERTIES INC
Form 10-Q
August 04, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2009

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HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland	**001-13100**	**56-1871668**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

HIGHWOODS REALTY LIMITED PARTNERSHIP

(Exact name of registrant as specified in its charter)

North Carolina	**000-21731**	**56-1869557**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

3100 Smoketree Court, Suite 600

Raleigh, NC 27604

(Address of principal executive offices) (Zip Code)

919-872-4924

(Registrants telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Highwoods Properties, Inc. Yes x No o **Highwoods Realty Limited Partnership** Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Highwoods Properties, Inc. Yes o No o **Highwoods Realty Limited Partnership** Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Securities Exchange Act.

Highwoods Properties, Inc.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

Highwoods Realty Limited Partnership

Large accelerated filer o Accelerated filer o Non-accelerated filer x Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act).

Highwoods Properties, Inc. Yes o No x **Highwoods Realty Limited Partnership** Yes o No x

The Company had 70,860,922 shares of common stock outstanding as of July 31, 2009.

HIGHWOODS PROPERTIES, INC.

HIGHWOODS REALTY LIMITED PARTNERSHIP

QUARTERLY REPORT FOR THE PERIOD ENDED JUNE 30, 2009

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

We refer to Highwoods Properties, Inc. as the Company, Highwoods Realty Limited Partnership as the Operating Partnership, the Company s common stock as Common Stock, the Company s preferred stock as Preferred Stock, the Operating Partnership s common partnership interests as Common Units, the Operating Partnership s preferred partnership interests as Preferred Units and in-service properties (excluding rental residential units) to which the Company and/or the Operating Partnership have title and 100.0% ownership rights as the Wholly Owned Properties. The partnership agreement provides that the Operating Partnership will assume and pay when due, or reimburse the Company for payment of, all costs and expenses relating to the ownership and operations of, or for the benefit of, the Operating Partnership. The partnership agreement further provides that all expenses of the Company are deemed to be incurred for the benefit of the Operating Partnership.

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HIGHWOODS PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited and in thousands, except share and per share amounts)

	June 30, 2009	December 31, 2008
Assets:		
Real estate assets, at cost:		
Land	$ 349,386	$ 352,872
Buildings and tenant improvements	2,808,834	2,819,844
Development in process	67,563	61,938
Land held for development	99,232	98,946
	3,325,015	3,333,600
Less-accumulated depreciation	(743,753)	(714,224)
Net real estate assets	2,581,262	2,619,376
For-sale residential condominiums	19,660	24,284
Real estate and other assets, net, held for sale	1,249	1,242
Cash and cash equivalents	13,372	13,757
Restricted cash	14,707	2,258
Accounts receivable, net of allowance of $2,836 and $1,281, respectively	18,050	23,687
Notes receivable, net of allowance of $418 and $459, respectively	3,330	3,602
Accrued straight-line rents receivable, net of allowance of $1,903 and $2,082, respectively	81,764	79,979
Investment in unconsolidated affiliates	66,631	67,723
Deferred financing and leasing costs, net of accumulated amortization of $50,752 and $52,586, respectively	70,055	73,216
Prepaid expenses and other assets	36,683	37,046
Total Assets	$ 2,906,763	$ 2,946,170
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable	$ 1,428,650	$ 1,604,685
Accounts payable, accrued expenses and other liabilities	134,202	135,609
Financing obligations	34,758	34,174
Total Liabilities	1,597,610	1,774,468
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	90,796	111,278
Equity:		
Preferred Stock, $.01 par value, 50,000,000 authorized shares;		
8.625% Series A Cumulative Redeemable Preferred Shares (liquidation preference $1,000 per share), 29,092 shares issued and outstanding	29,092	29,092
8.000% Series B Cumulative Redeemable Preferred Shares (liquidation preference $25 per share), 2,100,000 shares issued and outstanding	52,500	52,500
Common stock, $.01 par value, 200,000,000 authorized shares;		
70,847,962 and 63,571,705 shares issued and outstanding, respectively	708	636
Additional paid-in capital	1,783,645	1,616,093
Distributions in excess of net earnings	(649,326)	(639,281)
Accumulated other comprehensive loss	(4,327)	(4,792)
Total Stockholders' Equity	1,212,292	1,054,248
Noncontrolling interests in consolidated affiliates	6,065	6,176
Total Equity	1,218,357	1,060,424
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	$ 2,906,763	$ 2,946,170

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited and in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Rental and other revenues	$ 113,310	$ 112,828	$ 227,123	$ 224,041
Operating expenses:				
Rental property and other expenses	39,458	40,501	80,352	78,233
Depreciation and amortization	32,931	30,749	65,960	61,096
General and administrative	9,486	10,766	17,801	20,477
Total operating expenses	81,875	82,016	164,113	159,806
Interest expense:				
Contractual	19,945	23,345	40,524	46,808
Amortization of deferred financing costs	689	686	1,351	1,324
Financing obligations	710	764	1,445	1,504
	21,344	24,795	43,320	49,636
Other income:				
Interest and other income	2,284	1,597	3,291	2,389
Gain on debt extinguishment	630		630	
	2,914	1,597	3,921	2,389
Income before disposition of property and condominiums and equity in earnings of unconsolidated affiliates	13,005	7,614	23,611	16,988
Gains on disposition of property	194	107	213	107
Gains on for-sale residential condominiums	289		636	
Equity in earnings of unconsolidated affiliates	1,862	1,520	3,162	3,509
Income from continuing operations	15,350	9,241	27,622	20,604
Discontinued operations:				
Income from discontinued operations	781	1,745	1,636	3,390
Gains on disposition of discontinued operations	20,943	5,027	21,016	8,753
	21,724	6,772	22,652	12,143
Net income	37,074	16,013	50,274	32,747
Net (income) attributable to noncontrolling interests in the Operating Partnership	(2,054)	(839)	(2,748)	(1,732)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(116)	(191)	(134)	(389)
Dividends on preferred stock	(1,677)	(2,838)	(3,354)	(5,676)
Net income available for common stockholders	$ 33,227	$ 12,145	$ 44,038	$ 24,950
Earnings per common share - basic:				
Income from continuing operations available for common stockholders	$ 0.19	$ 0.10	$ 0.35	$ 0.24
Income from discontinued operations available for common stockholders	0.31	0.11	0.33	0.20
Net income available for common stockholders	$ 0.50	$ 0.21	$ 0.68	$ 0.44
Weighted average common shares outstanding - basic	66,122	57,456	64,883	57,337
Earnings per common share - diluted:				
Income from continuing operations available for common stockholders	$ 0.19	$ 0.10	$ 0.35	$ 0.23
Income from discontinued operations available for common stockholders	0.31	0.11	0.33	0.20
Net income available for common stockholders	$ 0.50	$ 0.21	$ 0.68	$ 0.43
Weighted average common shares outstanding - diluted	70,234	61,822	68,978	61,625
Dividends declared per common share	$ 0.425	$ 0.425	$ 0.850	$ 0.850
Net income available for common stockholders:				
Income from continuing operations available for common stockholders	$ 12,767	$ 5,811	$ 22,706	$ 13,596
Income from discontinued operations available for common stockholders	20,460	6,334	21,332	11,354
Net income available for common stockholders	$ 33,227	$ 12,145	$ 44,038	$ 24,950

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENT OF EQUITY

Six Months Ended June 30, 2009

(Unaudited and in thousands, except share amounts)

	Number of Common Shares	Common Stock	Series A Preferred	Series B Preferred	Additional Paid-In Capital	Accum-ulated Other Compre-hensive Loss	Non-Control-ling Interests in Consol-idated Affiliates	Distri-butions in Excess of Net Earnings	Total
Balance at December 31, 2008	63,571,705	$ 636	$ 29,092	$ 52,500	$ 1,616,093	$ (4,792)	$ 6,176	$ (639,281)	$ 1,060,424
Issuances of Common Stock, net	7,027,226	70			144,194				144,264
Conversion of Common Units to Common Stock	8,291				189				189
Dividends on Common Stock								(54,083)	(54,083)
Dividends on Preferred Stock								(3,354)	(3,354)
Adjustment to noncontrolling interests in the Operating Partnership					19,598				19,598
Distribution to noncontrolling interest in consolidated affiliates							(245)		(245)
Issuances of restricted stock, net	240,740								
Amortization of restricted stock and stock options		2			3,571				3,573
Net (income) attributable to noncontrolling interests in the Operating Partnership								(2,748)	(2,748)
							134	(134)	

Net (income) attributable to noncontrolling interests in consolidated affiliates									
Comprehensive income:									
Net income								50,274	50,274
Other comprehensive income						465			465
Total comprehensive income									50,739
Balance at June 30, 2009	70,847,962	$ 708	$ 29,092	$ 52,500	$ 1,783,645	$ (4,327)	$ 6,065	$ (649,326)	$ 1,218,357

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	Six Months Ended June 30, 2009	2008
Operating activities:		
Net income	$ 50,274	$ 32,747
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	58,718	54,878
Amortization of lease commissions	7,792	7,605
Amortization of lease incentives	548	486
Amortization of restricted stock and stock options	3,573	3,940
Amortization of deferred financing costs	1,351	1,324
Amortization of accumulated other comprehensive loss	(141)	126
Gain on extinguishment of debt	(630)	
Gains on disposition of properties	(21,229)	(8,860)
Gains on disposition of for-sale residential condominiums	(636)	
Equity in earnings of unconsolidated affiliates	(3,162)	(3,509)
Change in financing obligations	584	74
Distributions of earnings from unconsolidated affiliates	2,081	3,461
Changes in operating assets and liabilities:		
Accounts receivable	3,713	3,282
Prepaid expenses and other assets	(1,296)	(2,575)
Accrued straight-line rents receivable	(2,252)	(4,298)
Accounts payable, accrued expenses and other liabilities	5,351	(5,438)
Net cash provided by operating activities	104,639	83,243
Investing activities:		
Additions to real estate assets and deferred leasing costs	(68,851)	(114,376)
Proceeds from disposition of real estate assets	61,556	29,452
Proceeds from disposition of for-sale residential condominiums	5,215	
Distributions of capital from unconsolidated affiliates	2,879	1,499
Net repayments of notes receivable	272	1,476
Contributions to unconsolidated affiliates	(500)	(12,341)
Changes in restricted cash and other investing activities	(12,020)	(22,589)
Net cash used in investing activities	(11,449)	(116,879)
Financing activities:		
Dividends on Common Stock	(54,083)	(48,653)
Dividends on Preferred Stock	(3,354)	(5,676)
Distributions to noncontrolling interests in the Operating Partnership	(3,443)	(3,356)
Distributions to noncontrolling interests in consolidated affiliates	(245)	(471)
Net proceeds from the sale of Common Stock	144,264	6,122
Repurchase of Common Units from noncontrolling interests		(3,293)
Borrowings on revolving credit facility	122,000	242,550
Repayments of revolving credit facility	(177,000)	(212,350)
Borrowings on mortgages and notes payable	53,424	164,995
Repayments of mortgages and notes payable	(173,846)	(105,161)
Contributions from noncontrolling interests in consolidated affiliates		625
Additions to deferred financing costs	(1,292)	(803)
Net cash (used in)/provided by financing activities	(93,575)	34,529
Net (decrease)/increase in cash and cash equivalents	(385)	893
Cash and cash equivalents at beginning of the period	13,757	3,140
Cash and cash equivalents at end of the period	$ 13,372	$ 4,033

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued

(Unaudited and in thousands)

Supplemental disclosure of cash flow information:

	Six Months Ended June 30, 2009	2008
Cash paid for interest, net of amounts capitalized (excludes cash distributions to owners of sold properties accounted for as financings of $272 and $800, respectively)	$ 43,386	$ 50,459

Supplemental disclosure of non-cash investing and financing activities:

	Six Months Ended June 30, 2009	2008
Assets:		
Prepaid expenses and other assets	$ 192	$ 292
	$ 192	$ 292
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ (414)	$ 142
	$ (414)	$ 142
Noncontrolling Interests in the Operating Partnership and Equity	$ 606	$ 150

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

(tabular dollar amounts in thousands, except per share data)

(Unaudited)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Highwoods Properties, Inc., together with its consolidated subsidiaries (the "Company"), is a fully-integrated, self-administered and self-managed equity real estate investment trust ("REIT") that operates in the southeastern and midwestern United States. The Company conducts virtually all of its activities through Highwoods Realty Limited Partnership (the Operating Partnership). As of June 30, 2009, the Company and/or the Operating Partnership wholly owned: 307 in-service office, industrial and retail properties; 96 rental residential units; 580 acres of undeveloped land suitable for future development, of which 490 acres are considered core holdings; an additional six office and industrial properties under development; and 61 for-sale residential condominiums.

The Company is the sole general partner of the Operating Partnership. As of June 30, 2009, the Company owned all of the preferred partnership interests (Preferred Units) and 70.4 million, or 94.6%, of the common partnership interests (Common Units) in the Operating Partnership. Limited partners (including certain officers and directors of the Company) own the remaining 4.1 million Common Units. Generally, the Operating Partnership is required to redeem each Common Unit at the request of the holder thereof for cash equal to the value of one share of the Company s Common Stock, $.01 par value (the Common Stock), based on the average of the market price for the 10 trading days immediately preceding the notice date of such redemption, provided that the Company at its option may elect to acquire any such Common Units presented for redemption for cash or one share of Common Stock. The Common Units owned by the Company are not redeemable. During the six months ended June 30, 2009, the Company redeemed 8,291 Common Units for a like number of shares of Common Stock.

Common Stock Offering

On June 1, 2009, the Company issued in a public offering approximately 7.0 million shares of Common Stock for net proceeds of $144.1 million. As required by the terms of the partnership agreement of the Operating Partnership, the net proceeds from the offering were contributed to the Operating Partnership in exchange for additional Common Units. The net impact of the offering and the redemptions discussed above was to increase the percentage of Common Units owned by the Company from 94.0% as of December 31, 2008 to 94.6% as of June 30, 2009. On June 1, 2009, we used a portion of the net proceeds of the offering to retire the remaining $107.2 million principal amount of a secured loan; we incurred no prepayment penalties. The remaining net proceeds from the offering were used to reduce the amount of borrowings outstanding under our revolving credit facility.

Basis of Presentation

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). As more fully described in Note 10, the Consolidated Statements of Income for the three and six months ended June 30, 2008 were revised from previously reported amounts to reflect in discontinued operations the operations for those properties sold during 2008 and the first six months of 2009 which qualified for discontinued operations presentation.

Effective January 1, 2009, we adopted SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160), which defines a noncontrolling interest in a consolidated subsidiary as the portion of the equity in a subsidiary not attributable, directly or indirectly, to the parent and requires noncontrolling interests to be presented as a separate component of equity in the consolidated balance sheet subject to the provisions of EITF D-98, Classification and Measurement of Redeemable Securities (EITF D-98). SFAS No. 160 also modifies the presentation of net income by requiring earnings and other comprehensive income to be attributable to controlling and noncontrolling interests. SFAS No. 160 requires retroactive treatment for all periods presented. Below are the steps we have taken as a result of the implementation of this standard with respect to previously reported amounts:

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

We have reclassified the noncontrolling interests in consolidated affiliates from the mezzanine section of our Consolidated Balance Sheet to equity. This reclassification totaled $6.2 million as of December 31, 2008.

Net income attributable to noncontrolling interests in consolidated affiliates and the Operating Partnership are no longer deducted when determining net income. As a result, net income for the three and six months ended June 30, 2008 increased $1.0 million and $2.1 million from the previously reported amounts, respectively. The adoption of this standard had no effect on our net income available for common stockholders or our earnings per common share.

As prescribed by EITF D-98, we adjusted noncontrolling interests in the Operating Partnership so that the carrying value equals the greater of historical cost or redemption value and continue to present it in the mezzanine section of our Consolidated Balance Sheets due to its redemption feature, as previously disclosed. As a result, noncontrolling interests in the Operating Partnership as of December 31, 2008 increased $45.6 million from the previously reported amount, with a corresponding decrease to additional paid in capital.

Effective January 1, 2009, we adopted FASB Staff Position EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). As a result, our weighted average common shares outstanding, basic and diluted, for the three and six months ended June 30, 2008 were revised from previously reported amounts to include our total number of restricted common shares outstanding. For the three months ended June 30, 2008, weighted average common shares outstanding, basic and diluted, are 516,076 and 330,166 shares higher than previously reported, respectively. For the six months ended June 30, 2008, weighted average common shares outstanding, basic and diluted, are 504,611 and 335,572 shares higher than previously reported, respectively. Basic earnings per common share for the three and six months ended June 30, 2008 is unchanged from amounts previously reported. Diluted earnings per common share for the three months ended June 30, 2008 is unchanged from the amount previously reported and, for the six months ended June 30, 2008, is $0.01 lower than previously reported.

The Consolidated Financial Statements include the Operating Partnership, wholly owned subsidiaries and those subsidiaries in which we own a majority voting interest with the ability to control operations and where no substantive participating rights or substantive kick out rights have been granted to the noncontrolling interest holders. All significant intercompany transactions and accounts have been eliminated.

The unaudited interim consolidated financial statements and accompanying unaudited consolidated financial information, in the opinion of management, contain all adjustments (including normal recurring accruals) necessary for a fair presentation of our financial position, results of operations and cash flows. We have omitted certain notes and other information from the interim consolidated financial statements presented in this Quarterly Report on Form 10-Q as permitted by SEC rules and regulations. These consolidated financial statements should be read in conjunction with our 2008 Annual Report on Form 10-K.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

We have elected and expect to continue to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. A corporate REIT is a legal entity that holds real estate assets and, through the payment of dividends to stockholders, is generally permitted to reduce or avoid the payment of federal and state income taxes. To maintain qualification as a REIT, we are required to pay dividends to our stockholders equal to at least 90.0% of our annual REIT taxable income, excluding capital gains. As a REIT, we will not be subject to federal and state taxes if we distribute at least 100.0% of our taxable income (ordinary income and capital gains, if any) to our stockholders. Under temporary IRS regulations, for 2009, distributions can be paid partially using a REIT s freely tradable stock so long as stockholders have the option of receiving at least 10% of the total distribution in cash.

Noncontrolling Interests

We adopted SFAS No. 160 on January 1, 2009, as described previously, which establishes accounting and presentation standards for noncontrolling interests in subsidiaries.

Noncontrolling interests in the Operating Partnership in the accompanying Consolidated Financial Statements relates to the ownership by various individuals and entities other than the Company of Common Units in the Operating Partnership. Net income attributable to noncontrolling interests in the Operating Partnership is computed by applying the weighted average percentage of Common Units not owned by the Company during the period (as a percent of the total number of outstanding Common Units) to the Operating Partnership s net income for the period after deducting distributions on Preferred Units. When a noncontrolling unitholder redeems a Common Unit for a share of Common Stock or cash, the noncontrolling interests in the Operating Partnership are reduced and the Company s share in the Operating Partnership is increased by the fair value of each redeemed security. The following table sets forth noncontrolling interests in the Operating Partnership:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Beginning noncontrolling interests in the Operating Partnership	$ 87,119	$ 122,739	$ 111,278	$ 119,195
Adjustments to noncontrolling interests in the Operating Partnership	3,538	2,261	(19,598)	9,884
	(189)	(591)	(189)	(3,884)

Redemptions/conversions of noncontrolling interest partnership units				
Net income attributable to noncontrolling interests in the Operating Partnership	2,054	839	2,748	1,732
Distributions to noncontrolling interests in the Operating Partnership	(1,726)	(1,677)	(3,443)	(3,356)
Total noncontrolling interests in the Operating Partnership	$ 90,796	$ 123,571	$ 90,796	$ 123,571

Noncontrolling interests in consolidated affiliates relates to our respective joint venture partners 50.0% interest in Highwoods-Markel Associates, LLC (Markel) and estimated 19% economic interest in Plaza Residential, LLC (Plaza Residential). Each of our joint venture partners is an unrelated third party. We consolidate Markel since we are the general partner and effectively control the major operating and financial policies of the joint venture. We consolidate Plaza Residential since we own the majority interest in and effectively control the joint venture.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Recently Issued Accounting Standards

In June 2009, the FASB issued FASB No. 167, Amendments to FASB Interpretation No. 46(R) (FAS 167), which requires ongoing assessments to determine whether an entity is a variable entity and requires qualitative analysis to determine whether an enterprise s variable interest(s) give it a controlling financial interest in a variable interest entity. In addition, FAS 167 requires enhanced disclosures about an enterprise s involvement in a variable interest entity. FAS 167 is effective for the fiscal year that begins after November 15, 2009. We are currently evaluating the impact FAS 167 may have on our financial position, results of operations and disclosures.

2. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

We have equity interests ranging from 12.5% to 50.0% in various joint ventures with unrelated third parties. We account for our unconsolidated joint ventures using the equity method of accounting. As a result, the assets and liabilities of these joint ventures for which we use the equity method of accounting are not included in our Consolidated Balance Sheets.

The combined, summarized income statements for our unconsolidated joint ventures were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Income Statements:				
Revenues	$ 37,347	$ 41,199	$ 76,216	$ 79,728
Expenses:				
Rental property and other expenses	18,065	20,032	36,705	38,463
Depreciation and amortization	8,853	9,170	17,725	16,628
Interest expense	8,866	9,205	17,841	17,692
Total expenses	35,784	38,407	72,271	72,783
Income before disposition of property	1,563	2,792	3,945	6,945
Gains on disposition of property	3,426		3,426	
Net income	$ 4,989	$ 2,792	$ 7,371	$ 6,945

Our share of:				
Net income (1)	$ 1,862	$ 1,520	$ 3,162	$ 3,509
Depreciation and amortization of real estate assets	$ 3,223	$ 3,395	$ 6,473	$ 6,330
Interest expense	$ 3,542	$ 3,691	$ 7,120	$ 7,220
Gain on disposition of depreciable properties	$ 781	$	$ 781	$

(1) Our share of net income differs from our weighted average ownership percentage in the joint ventures net income due to our purchase accounting and other related adjustments.

We have a 22.81% interest in a joint venture with Schweiz-Deutschland-USA Dreilander Beteiligung Objekt DLF 98/29-Walker Fink-KG. In the second quarter of 2009, this joint venture sold one property for gross proceeds of $14.8 million and recorded a gain of $3.4 million. We recorded $0.8 million as our proportionate share of this gain through equity in earnings of unconsolidated affiliates in the second quarter of 2009.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

3. INVESTMENT ACTIVITIES

Dispositions

In the second quarter of 2009, we sold three non-core community retail centers aggregating 413,000 square feet in the Kansas City metropolitan area for gross proceeds of $62.1 million. A gain of $20.9 million was recorded in the second quarter of 2009.

Development

Development in process as of June 30, 2009 consisted primarily of two office properties aggregating 258,000 rentable square feet and 75 acres of vacant land undergoing infrastructure improvements. The aggregate cost, including leasing commissions, of the two properties currently is expected to be $64.1 million when fully leased and completed, of which $58.9 million had been incurred as of June 30, 2009. The dollar weighted average pre-leasing of these development properties was approximately 62% as of June 30, 2009.

Additionally, we currently have three office properties and one industrial property recently completed, but not yet stabilized, aggregating 573,000 square feet. The aggregate cost, including leasing commissions, of these properties currently is expected to be $80.1 million when fully leased, of which $70.3 million had been incurred as of June 30, 2009. The dollar weighted average pre-leasing of these properties was approximately 43% as of June 30, 2009. The components of these properties are included in land, building and tenant improvements and deferred financing and leasing costs in our Consolidated Balance Sheet as of June 30, 2009.

For-Sale Residential Condominiums

We own a majority interest in Plaza Residential, LLC, a joint venture which was formed to develop and sell 139 for-sale residential condominiums constructed above an office tower developed by us in Raleigh, NC. For-sale residential condominiums in our Consolidated Balance Sheets include our completed, but unsold, condominium inventory as of June 30, 2009 and December 31, 2008. For the three and six months ended June 30, 2009, we sold five and 13 condominiums for net sales proceeds of $2.0 million and $5.2 million, respectively, and recorded gains of $0.3 million and $0.6 million, respectively. For the three and six months ended June 30, 2008, there were no corresponding sales or gains. Net sales proceeds include forfeitures of earnest money deposits of $0.2 million and $0.5 million for the three and six months ended June 30, 2009, respectively. We record forfeitures of earnest money deposits as income when entitled to claim the forfeited deposit upon legal default. Our estimate of our partner s economic ownership, which is impacted by a contractually-based promoted return, decreased from 25% as of December 31, 2008 to 19% as of June 30, 2009.

4. DEFERRED FINANCING AND LEASING COSTS

As of June 30, 2009 and December 31, 2008, we had deferred financing costs of $10.7 million and $14.7 million, respectively, with related accumulated amortization of $3.9 million and $7.8 million, respectively. As of June 30, 2009 and December 31, 2008, we had deferred leasing costs of $110.1 million and $111.1 million, respectively, with related accumulated amortization of $46.8 million and $44.8 million, respectively. Aggregate amortization expense (included in depreciation and amortization and amortization of deferred financing costs) for these intangibles for the three months ended June 30, 2009 and 2008 was $4.6 million and $4.5 million, respectively, and for the six months ended June 30, 2009 and 2008 was $9.1 million and $8.9 million, respectively.

The estimated aggregate amortization expense for each of the next five succeeding fiscal years is as follows:

July 1, 2009 through December 31, 2009	$ 8,304
2010	$ 13,660
2011	$ 10,894
2012	$ 10,221
2013	$ 6,856
2014	$ 4,486

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

5. MORTGAGES AND NOTES PAYABLE

Our consolidated mortgages and notes payable consisted of the following:

	June 30, 2009	December 31, 2008
Secured mortgage loans	$ 567,293	$ 655,186
Unsecured loans	861,357	949,499
Total	$ 1,428,650	$ 1,604,685

As of June 30, 2009, our secured mortgage loans were secured by real estate assets with an aggregate undepreciated book value of $908.7 million.

Our $450.0 million unsecured revolving credit facility is scheduled to mature on May 1, 2010. The interest rate is LIBOR plus 80 basis points and the annual base facility fee is 20 basis points. The interest rate would increase to LIBOR plus 140 or 155 basis points if our credit rating were to fall below investment grade according to two of three major credit rating agencies. Our revolving credit facility had $338.5 million of availability as of June 30, 2009 and had $355.5 million of availability as of July 31, 2009.

Our $70.0 million secured construction facility is initially scheduled to mature on December 20, 2010. Assuming no defaults have occurred, we have options to extend the maturity date for two successive one-year periods. The interest rate is LIBOR plus 85 basis points. Our secured construction facility had $28.3 million of availability as of June 30, 2009 and July 31, 2009.

In January 2009, we paid off at maturity $50.0 million of 8.125% unsecured notes using borrowings under our revolving credit facility.

In March 2009, we obtained a $20.0 million, three-year unsecured term loan with a bank lender. The interest rate is LIBOR plus 250 basis points, subject to a minimum total interest rate of 3.9%.

In June 2009, we retired the remaining $107.2 million principal amount of a secured loan using a portion of the net proceeds of our Common Stock offering on June 1, 2009. We incurred no prepayment penalties.

Our revolving credit facility, variable rate term loans and the indenture that governs the Operating Partnership s outstanding notes require us to comply with customary operating covenants and various financial and operating ratios. We and the Operating Partnership are each currently in compliance with all such requirements.

6. SHARE-BASED PAYMENTS

During the six months ended June 30, 2009, we granted under our Amended and Restated 1994 Stock Option Plan 394,044 stock options at an exercise price equal to the closing market price of a share of our common stock on the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, which resulted in a weighted-average grant date fair value per share of $1.80. During the six months ended June 30, 2009, we also granted 128,384 shares of time-based restricted stock and 99,910 shares of total return-based restricted stock with weighted-average grant date fair values per share of $19.33 and $10.13, respectively. We recorded stock-based compensation expense of $1.7 million each during the three months ended June 30, 2009 and 2008, respectively. We recorded stock-based compensation expense of $3.6 million and $3.9 million during the six months ended June 30, 2009 and 2008, respectively. As of June 30, 2009, there was $10.6 million of total unrecognized stock-based compensation costs, which will be recognized over a weighted average remaining contractual term of 1.5 years.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

7. DERIVATIVE INSTRUMENTS

To meet, in part, our liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility, construction facility and bank term loans bear interest at variable rates. Our long-term debt, which consists of secured and unsecured long-term financings and the issuance of unsecured debt securities, typically bears interest at fixed rates although some loans bear interest at variable rates. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time, we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes. The interest rate on all of our variable rate debt is generally adjusted at one or three month intervals, subject to settlements under these interest rate hedge contracts. We also enter into treasury lock agreements from time to time in order to limit our exposure to an increase in interest rates with respect to future debt offerings.

In prior periods, we entered into certain interest rate hedging arrangements which were designated and are being accounted for as cash flow hedges. The effective portion of these arrangements, representing deferred interest expense, was $0.9 million as of June 30, 2009 and is included in Accumulated Other Comprehensive Loss (AOCL). This deferred expense will be recognized as an addition to interest expense in the same periods during which interest expense on the hedged financings affects net income. We expect approximately $0.2 million will be recognized as a decrease to interest expense within the next 12 months.

In January 2008, we entered into two floating-to-fixed interest rate swaps for a one-year period with respect to an aggregate of $50.0 million of borrowings outstanding under our revolving credit facility or other floating rate debt. These swaps fixed the underlying LIBOR rate upon which interest on such borrowings is based at 3.26% for $30.0 million of borrowings and 3.24% for $20.0 million of borrowings. These swaps were designated and accounted for as cash flow hedges and matured in January 2009.

In April 2008, we entered into a floating-to-fixed interest rate swap for a two-year period with respect to an aggregate of $50.0 million of borrowings outstanding under our term loan or other floating rate debt. The swap fixes the underlying LIBOR rate upon which interest on such borrowings is based at 2.52%. The counterparty under this swap is Bank of America, N.A. The swap was designated and is being accounted for as a cash flow hedge. The effective portion of the swap representing deferred interest expense was $0.8 million as of June 30, 2009 and is included in AOCL. We expect all of the balance to be recognized as an increase to interest expense within the next ten months.

In October 2008, we entered into a floating-to-fixed interest rate swap for a one-year period with respect to an aggregate of $25.0 million of borrowings outstanding under our term loan or other floating rate debt. The swap fixes the underlying LIBOR rate upon which interest on such borrowings is based at 2.35%. The counterparty under this swap is PNC Bank, N.A. The swap was designated and is being accounted for as a cash flow hedge. The effective portion of the swap representing deferred interest expense was $0.2 million as of June 30, 2009 and is included in

AOCL. We expect all of the balance to be recognized as an increase to interest expense within the next four months.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

8. OTHER COMPREHENSIVE INCOME/(LOSS)

Other comprehensive income/(loss) represents net income plus the changes in certain amounts deferred in accumulated other comprehensive income/(loss) related to hedging and other activities not reflected in the Consolidated Statements of Income. The components of other comprehensive income/(loss) are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Net income	$ 37,074	$ 16,013	$ 50,274	$ 32,747
Other comprehensive income/(loss):				
Unrealized gain/(loss) on tax increment financing bonds	226	187	192	(374)
Unrealized derivative net gains on cash-flow hedges	217	933	414	524
Amortization of past cash flow hedges	(71)	46	(141)	126
Total other comprehensive income	372	1,166	465	276
Total comprehensive income	$ 37,446	$ 17,179	$ 50,739	$ 33,023

9. FAIR VALUE MEASUREMENTS

The following summarizes the three levels of inputs that we use to measure fair value, as well as the assets, mezzanine noncontrolling interests and liabilities that we recognize at fair value using those levels of inputs.

Level 1. Quoted prices in active markets for identical assets or liabilities.

Our Level 1 assets are comprised of investments in marketable securities which we use to pay benefits under our deferred compensation plan. Our Level 1 noncontrolling interests in the Operating Partnership are comprised of Common Units in the Operating Partnership not owned by the Company. Our Level 1 liabilities are our obligations to pay certain deferred compensation plan benefits whereby participants have designated investment options (primarily mutual funds) to serve as the basis for measurement of the notional value of their accounts.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.

Our Level 2 liabilities are interest rate swaps whose fair value is determined using a pricing model based upon observable market inputs.

Level 3. Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Our Level 3 asset is our tax increment financing bond issued by a municipal authority in connection with our construction of a public parking facility that is not routinely traded but whose fair value is determined using an estimate of projected redemption value based on quoted bid/ask prices for similar unrated municipal bonds. This available for-sale security is carried at estimated fair value in prepaid and other assets with unrealized gains or losses reported in accumulated other comprehensive loss. The estimated fair value as of June 30, 2009 was $2.5 million below the outstanding principal due on the bond. We currently intend to hold this bond, which amortizes to maturity in 2020, and do not believe that we will be required to sell this bond before recovery. Payment of the principal and interest for the bond is guaranteed by us and, therefore, we have recorded no credit losses related to the bond s impairment. Our Level 3 liability is our SF-HIW Harborview Plaza, LP financing obligation that is not traded but whose fair value is determined using an estimate of discounted cash flows dependent on future leasing assumptions for the property.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

9. FAIR VALUE MEASUREMENTS - Continued

The following table sets forth the assets and liabilities that we measured at fair value on a recurring basis by level within the fair value hierarchy.

	Balance at June 30, 2009	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Assets:				
Marketable securities (in prepaid and other assets) (1)	$ 5,200	$ 5,200	$	$
Tax increment financing bond (in prepaid expenses and other assets)	17,660			17,660
Total Assets	$ 22,860	$ 5,200	$	$ 17,660
Noncontrolling Interests in the Operating Partnership	$ 90,796	$ 90,796	$	$
Liabilities:				
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	$ 962	$	$ 962	$
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	5,808	5,808		
SF-Harborview Plaza, LP financing obligation	17,172			17,172
Total Liabilities	$ 23,942	$ 5,808	$ 962	$ 17,172

(1) The marketable securities are held through our officer deferred compensation plans.

The following table sets forth our Level 3 asset and liability.

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Asset:		
Tax Increment Financing Bond		
Beginning balance	$ 17,434	$ 17,468
Unrealized gain (in AOCL)	226	192
Ending balance	$ 17,660	$ 17,660
Liability:		
SF-Harborview Plaza, LP Financing Obligation		
Beginning balance	$ 16,934	$ 16,604
Payments on financing obligation	(162)	(272)
Interest expense on financing obligation	400	840
Ending balance	$ 17,172	$ 17,172

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

9. FAIR VALUE MEASUREMENTS - Continued

The following estimated fair values were determined by management using available market information and appropriate valuation methodologies. Considerable judgment is used to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize upon disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values. The carrying amounts and estimated fair values of our financial instruments were as follows:

	Carrying Amount	Fair Value
June 30, 2009		
Cash and cash equivalents	$ 13,372	$ 13,372
Restricted cash	$ 14,707	$ 14,707
Accounts and notes receivable	$ 21,380	$ 21,380
Marketable securities (in prepaid expenses and other assets)	$ 5,200	$ 5,200
Tax increment financing bond (in prepaid expenses and other assets)	$ 17,660	$ 17,660
Mortgages and notes payable	$ 1,428,650	$ 1,286,867
Financing obligations	$ 34,758	$ 32,748
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	$ 962	$ 962
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	$ 5,808	$ 5,808
Noncontrolling interests in the Operating Partnership	$ 90,796	$ 90,796
December 31, 2008		
Cash and cash equivalents	$ 13,757	$ 13,757
Restricted cash	$ 2,258	$ 2,258
Accounts and notes receivable	$ 27,289	$ 27,289
Marketable securities (in prepaid expenses and other assets)	$ 5,422	$ 5,422
Tax increment financing bond (in prepaid expenses and other assets)	$ 17,468	$ 17,468
Mortgages and notes payable	$ 1,604,685	$ 1,330,899
Financing obligations	$ 34,174	$ 32,219
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	$ 1,376	$ 1,376
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	$ 6,522	$ 6,522
Noncontrolling interests in the Operating Partnership	$ 111,278	$ 111,278

The fair values of our mortgages and notes payable and financing obligations were estimated using discounted cash flow analyses based on estimated market rates on similar borrowing arrangements at June 30, 2009 and December 31, 2008, respectively. The carrying amounts of our cash and cash equivalents, accounts and notes receivable equal or approximate fair value.

Disclosures about the fair value of financial instruments are based on relevant information available to us at June 30, 2009. Although management is not aware of any factors that would have a material effect on the fair value amounts reported herein, such amounts have not been revalued since that date and current estimates of fair value may significantly differ from the amounts presented herein.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

10. DISCONTINUED OPERATIONS

As part of our business strategy, we from time to time selectively dispose of non-core properties and use the net proceeds for investments, for repayment of debt and/or retirement of Preferred Stock, or other purposes. The table below sets forth the net operating results of those assets classified as discontinued operations in our Consolidated Financial Statements. These assets classified as discontinued operations comprise 1.2 million square feet of office and retail properties and 13 rental residential units sold during 2008 and the six months ended June 30, 2009. The operations of these assets have been reclassified from our ongoing operations to discontinued operations, and we will not have any significant continuing involvement in the operations after the disposal transactions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Rental and other revenues	$ 1,384	$ 3,698	$ 3,535	$ 7,773
Operating expenses:				
Rental property and other expenses	448	1,337	1,351	3,016
Depreciation and amortization	155	624	550	1,386
Total operating expenses	603	1,961	1,901	4,402
Other income		8	2	19
Income before gains on disposition of discontinued operations	781	1,745	1,636	3,390
Gains on disposition of discontinued operations	20,943	5,027	21,016	8,753
Total discontinued operations	$ 21,724	$ 6,772	$ 22,652	$ 12,143

11. EARNINGS PER SHARE

As described in Note 1, effective January 1, 2009, we adopted FSP EITF 03-6-1, which required us to retroactively revise our weighted average common shares outstanding, basic and diluted, to include our total number of restricted common shares outstanding.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

11. EARNINGS PER SHARE - Continued

The following table sets forth the computation of basic and diluted earnings per common share:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Earnings per common share - basic:				
Numerator:				
Income from continuing operations	$ 15,350	$ 9,241	$ 27,622	$ 20,604
Noncontrolling interests in the Operating Partnership	(790)	(401)	(1,428)	(943)
Noncontrolling interests in consolidated affiliates	(116)	(191)	(134)	(389)
Dividends on preferred stock	(1,677)	(2,838)	(3,354)	(5,676)
Income from continuing operations available for common stockholders	12,767	5,811	22,706	13,596
Income from discontinued operations	21,724	6,772	22,652	12,143
Noncontrolling interests in the Operating Partnership from discontinued operations	(1,264)	(438)	(1,320)	(789)
Income from discontinued operations available for common stockholders	20,460	6,334	21,332	11,354
Net income available for common stockholders	$ 33,227	$ 12,145	$ 44,038	$ 24,950
Denominator:				
Denominator for basic earnings per common share weighted average shares **(1)**	66,122	57,456	64,883	57,337
Earnings per common share - basic:				
Income from continuing operations available for common stockholders	$ 0.19	$ 0.10	$ 0.35	$ 0.24
Income from discontinued operations available for common stockholders	0.31	0.11	0.33	0.20
Net income available for common stockholders	$ 0.50	$ 0.21	$ 0.68	$ 0.44
Earnings per common share - diluted:				
Numerator:				
Income from continuing operations	$ 15,350	$ 9,241	$ 27,622	$ 20,604
Noncontrolling interests in consolidated affiliates	(116)	(191)	(134)	(389)
Dividends on preferred stock	(1,677)	(2,838)	(3,354)	(5,676)
Income from continuing operations available for common stockholders before noncontrolling interests in the Operating Partnership	13,557	6,212	24,134	14,539
Income from discontinued operations	21,724	6,772	22,652	12,143
Net income available for common stockholders before noncontrolling interests in the Operating Partnership	$ 35,281	$ 12,984	$ 46,786	$ 26,682
Denominator:				
Denominator for basic earnings per common share weighted average shares	66,122	57,456	64,883	57,337
Add:				
Employee and director stock options and warrants	49	420	30	331
Noncontrolling Common Units	4,063	3,946	4,065	3,957
Denominator for diluted earnings per common share adjusted weighted average shares and assumed conversions **(1)**	70,234	61,822	68,978	61,625
Earnings per common share - diluted:				
Income from continuing operations available for common stockholders	$ 0.19	$ 0.10	$ 0.35	$ 0.23

Income from discontinued operations available for common stockholders	0.31	0.11	0.33	0.20
Net income available for common stockholders	$0.50	$0.21	$0.68	$0.43

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

11. EARNINGS PER SHARE - Continued

(1) Options and warrants aggregating 1.2 million and 0.2 million shares were outstanding during the three months ended June 30, 2009 and 2008, respectively, and 1.3 and 0.4 million shares were outstanding during the six months ended June 30, 2009 and 2008, respectively but were not included in the treasury method calculation for diluted earnings per common share because the exercise prices of the options and warrants were higher than the average market price of Common Stock during these periods.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

12. SEGMENT INFORMATION

Our principal business is the acquisition, development and operation of rental real estate properties. We evaluate our business by product type and by geographic locations. Each product type has different customers and economic characteristics as to rental rates and terms, cost per square foot of buildings, the purposes for which customers use the space, the degree of maintenance and customer support required and customer dependency on different economic drivers, among others. The operating results by geographic grouping are also regularly reviewed by our chief operating decision maker for assessing performance and other purposes. There are no material inter-segment transactions.

The accounting policies of the segments are the same as those described in Note 1 included herein. All operations are within the United States and, as of June 30, 2009, no tenant of the Wholly Owned Properties comprised more than 8.7% of our consolidated revenues.

The following table summarizes the rental income and net operating income for each reportable segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Rental and Other Revenues: (1) (2) (3)				
Office:				
Atlanta, GA	$ 12,106	$ 11,733	$ 23,606	$ 23,288
Greenville, SC	3,601	3,498	7,239	6,760
Kansas City, MO	3,712	3,835	7,459	7,518
Memphis, TN	7,409	6,376	14,441	12,509
Nashville, TN	15,637	15,417	31,041	30,191
Orlando, FL	2,845	2,769	5,795	5,176
Piedmont Triad, NC	6,565	6,677	13,109	13,294
Raleigh, NC	18,224	16,487	36,574	35,020
Richmond, VA	11,240	12,834	22,951	24,425
Tampa, FL	16,592	17,030	33,133	32,856
Total Office Segment	97,931	96,656	195,348	191,037
Industrial:				
Atlanta, GA	3,931	3,815	7,872	7,901
Piedmont Triad, NC	3,301	3,577	7,677	7,284
Total Industrial Segment	7,232	7,392	15,549	15,185
Retail:				
Kansas City, MO	7,666	8,337	15,280	16,933

Piedmont Triad, NC	149	144	292	284
Raleigh, NC	30		60	
Total Retail Segment	7,845	8,481	15,632	17,217
Residential:				
Kansas City, MO	302	299	594	602
Total Residential Segment	302	299	594	602
Total Rental and Other Revenues	$ 113,310	$ 112,828	$ 227,123	$ 224,041

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

12. SEGMENT INFORMATION - Continued

	Three Months Ended June 30, 2009	2008
Net Operating Income: (1) (2) (3)		
Office:		
Atlanta, GA	$8,038	$7,47
Greenville, SC	2,339	2,19
Kansas City, MO	2,260	2,34
Memphis, TN	4,045	3,80
Nashville, TN	10,318	10,0
Orlando, FL	1,460	1,47
Piedmont Triad, NC	4,389	4,31
Raleigh, NC	12,784	10,4
Richmond, VA	8,062	8,47
Tampa, FL	9,516	10,3
Other	(2)	(36
Total Office Segment	63,209	60,8
Industrial:		
Atlanta, GA	2,934	2,85
Piedmont Triad, NC	2,444	2,81
Total Industrial Segment	5,378	5,66
Retail:		
Atlanta, GA **(4)**	(6)	(9
Kansas City, MO	5,085	5,66
Piedmont Triad, NC	124	117
Raleigh, NC	8	(25
Total Retail Segment	5,211	5,75
Residential:		
Kansas City, MO	183	66
Raleigh, NC **(4)**	(129)	6
Total Residential Segment	54	72
Total Net Operating Income	73,852	72,3
Reconciliation to income before disposition of property and condominiums and equity in earnings of unconsolidated affiliates:		
Depreciation and amortization	(32,931)	(30,
General and administrative expense	(9,486)	(10,
Interest expense	(21,344)	(24,
Interest and other income	2,914	1,59
Income before disposition of property and condominiums and equity in earnings of unconsolidated affiliates	$13,005	$7,61

(1) Net of discontinued operations.
(2) The Piedmont Triad market encompasses the Greensboro and Winston-Salem metropolitan area.
(3) The Raleigh market encompasses the Raleigh, Durham, Cary and Research Triangle metropolitan area.
(4) Negative NOI with no corresponding revenues represents expensed real estate taxes and other carrying costs associated with land held for development that is currently zoned for retail and residential properties.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per share data)

13. SUBSEQUENT EVENTS

We have evaluated events subsequent to June 30, 2009 and through August 4, 2009 (the issuance date of this interim report on Form 10-Q) for purposes of these financial statements and disclosures.

We have a 42.93% interest in a joint venture with Dreilander-Fonds 97/26 and 99/32. Subsequent to June 30, 2009, this joint venture classified one property as held for sale and, on July 24, 2009, sold this asset for gross proceeds of $7.1 million. The joint venture will record a $0.5 million impairment loss in the third quarter of 2009. We will record $0.2 million as our proportionate share of this impairment loss through equity in earnings of unconsolidated affiliates in the third quarter of 2009.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

CONSOLIDATED BALANCE SHEETS

(Unaudited and in thousands, except unit and per unit amounts)

	June 30, 2009	December 31, 2008
Assets:		
Real estate assets, at cost:		
Land	$ 349,386	$ 352,872
Buildings and tenant improvements	2,808,834	2,819,844
Development in process	67,563	61,938
Land held for development	99,232	98,946
	3,325,015	3,333,600
Less-accumulated depreciation	(743,753)	(714,224)
Net real estate assets	2,581,262	2,619,376
For-sale residential condominiums	19,660	24,284
Real estate and other assets, net, held for sale	1,249	1,242
Cash and cash equivalents	13,342	13,649
Restricted cash	14,707	2,258
Accounts receivable, net of allowance of $2,836 and $1,281, respectively	18,050	23,687
Notes receivable, net of allowance of $418 and $459, respectively	3,330	3,602
Accrued straight-line rents receivable, net of allowance of $1,903 and $2,082, respectively	81,764	79,979
Investment in unconsolidated affiliates	65,408	66,517
Deferred financing and leasing costs, net of accumulated amortization of $50,752 and $52,586, respectively	70,055	73,216
Prepaid expenses and other assets	36,651	37,046
Total Assets	$ 2,905,478	$ 2,944,856
Liabilities, Redeemable Operating Partnership Units and Equity:		
Mortgages and notes payable	$ 1,428,650	$ 1,604,685
Accounts payable, accrued expenses and other liabilities	134,202	135,606
Financing obligations	34,758	34,174
Total Liabilities	1,597,610	1,774,465
Commitments and Contingencies		
Redeemable Operating Partnership Units:		
Common Units, 4,058,872 and 4,067,163 outstanding, respectively	90,796	111,278
Series A Preferred Units (liquidation preference $1,000 per unit), 29,092 shares issued and outstanding	29,092	29,092
Series B Preferred Units (liquidation preference $25 per unit), 2,100,000 shares issued and outstanding	52,500	52,500
Total Redeemable Operating Partnership Units	172,388	192,870
Equity:		
Common Units:		
General partner Common Units, 744,980 and 672,301 outstanding, respectively	11,335	9,759
Limited partner Common Units, 69,694,173 and 62,490,596 outstanding, respectively	1,122,407	966,378
Accumulated other comprehensive loss	(4,327)	(4,792)
Noncontrolling interests in consolidated affiliates	6,065	6,176
Total Equity	1,135,480	977,521
	$ 2,905,478	$ 2,944,856

Total Liabilities, Redeemable Operating Partnership Units and
Equity

See accompanying notes to consolidated financial statements.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited and in thousands, except per unit amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Rental and other revenues	$ 113,310	$ 112,828	$ 227,123	$ 224,041
Operating expenses:				
Rental property and other expenses	39,363	40,501	80,101	78,083
Depreciation and amortization	32,931	30,749	65,960	61,096
General and administrative	9,581	10,766	18,052	20,624
Total operating expenses	81,875	82,016	164,113	159,803
Interest expense:				
Contractual	19,945	23,345	40,524	46,808
Amortization of deferred financing costs	689	686	1,351	1,324
Financing obligations	710	764	1,445	1,504
	21,344	24,795	43,320	49,636
Other income:				
Interest and other income	2,284	1,597	3,291	2,389
Gain on debt extinguishment	630		630	
	2,914	1,597	3,921	2,389
Income before disposition of property and condominiums and equity in earnings of unconsolidated affiliates	13,005	7,614	23,611	16,991
Gains on disposition of property	194	107	213	107
Gains on for-sale residential condominiums	289		636	
Equity in earnings of unconsolidated affiliates	1,847	1,508	3,110	3,481
Income from continuing operations	15,335	9,229	27,570	20,579
Discontinued operations:				
Income from discontinued operations	781	1,745	1,636	3,390
Gains on disposition of discontinued operations	20,943	5,027	21,016	8,753
	21,724	6,772	22,652	12,143
Net income	37,059	16,001	50,222	32,722
Net (income) attributable to noncontrolling interests in consolidated affiliates	(116)	(191)	(134)	(389)
Distributions on preferred units	(1,677)	(2,838)	(3,354)	(5,676)
Net income available for common unitholders	$ 35,266	$ 12,972	$ 46,734	$ 26,657
Earnings per common unit - basic:				
Income from continuing operations available for common unitholders	$ 0.20	$ 0.10	$ 0.35	$ 0.24
Income from discontinued operations available for common unitholders	0.31	0.11	0.33	0.20
Net income available for common unitholders	$ 0.51	$ 0.21	$ 0.68	$ 0.44
Weighted average common units outstanding - basic	69,776	60,993	68,539	60,885
Earnings per common unit - diluted:				
Income from continuing operations available for common unitholders	$ 0.20	$ 0.10	$ 0.35	$ 0.24
Income from discontinued operations available for common unitholders	0.31	0.11	0.33	0.20
Net income available for common unitholders	$ 0.51	$ 0.21	$ 0.68	$ 0.44
Weighted average common units outstanding - diluted	69,825	61,413	68,569	61,216
Distributions declared per common unit	$ 0.425	$ 0.425	$ 0.850	$ 0.850
Net income available for common unitholders:				
Income from continuing operations available for common unitholders	$ 13,542	$ 6,200	$ 24,082	$ 14,514
Income from discontinued operations available for common unitholders	21,724	6,772	22,652	12,143
Net income available for common unitholders	$ 35,266	$ 12,972	$ 46,734	$ 26,657

See accompanying notes to consolidated financial statements.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

CONSOLIDATED STATEMENT OF EQUITY

Six Months Ended June 30, 2009

(Unaudited and in thousands)

	Common Units				
	General Partner	Limited Partner	Accumulated Other Comprehensive Loss	Noncontrolling Interests in Consolidated Affiliates	Total Capital
Balance at December 31, 2008	$ 9,759	$ 966,378	$ (4,792)	$ 6,176	$ 977,521
Issuance of Common Units, net	1,443	142,821			144,264
Distributions on Common Units	(572)	(56,606)			(57,178)
Distributions on Preferred Units	(34)	(3,320)			(3,354)
Amortization of restricted stock and stock options	36	3,537			3,573
Distribution to noncontrolling interest in consolidated affiliates				(245)	(245)
Adjustment of Redeemable Common Units to fair value	202	20,010			20,212
Net (income) attributable to noncontrolling interests in consolidated affiliates	(1)	(133)		134	
Comprehensive income:					
Net income	502	49,720			50,222
Other comprehensive loss			465		465
Total comprehensive income					50,687
Balance at June 30, 2009	$ 11,335	$ 1,122,407	$ (4,327)	$ 6,065	$ 1,135,480

See accompanying notes to consolidated financial statements.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	Six Months Ended June 30, 2009	2008
Operating activities:		
Net income	$ 50,222	$ 32,722
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	58,718	54,878
Amortization of lease commissions	7,792	7,605
Amortization of lease incentives	548	486
Amortization of restricted stock and stock options	3,573	3,940
Amortization of deferred financing costs	1,351	1,324
Amortization of accumulated other comprehensive loss	(141)	126
Gain on debt extinguishment	(630)	
Gains on disposition of properties	(21,229)	(8,860)
Gains on disposition of for-sale residential condominiums	(636)	
Equity in earnings of unconsolidated affiliates	(3,110)	(3,481)
Change in financing obligations	584	74
Distributions of earnings from unconsolidated affiliates	2,056	3,452
Changes in operating assets and liabilities:		
Accounts receivable	3,713	3,282
Prepaid expenses and other assets	(1,264)	(2,546)
Accrued straight-line rents receivable	(2,252)	(4,298)
Accounts payable, accrued expenses and other liabilities	5,354	(5,400)
Net cash provided by operating activities	104,649	83,304
Investing activities:		
Additions to real estate assets and deferred leasing costs	(68,851)	(114,376)
Proceeds from disposition of real estate assets	61,556	29,452
Proceeds from disposition of for-sale residential condominiums	5,215	
Distributions of capital from unconsolidated affiliates	2,879	1,499
Net repayments of notes receivable	272	1,476
Contributions to unconsolidated affiliates	(500)	(12,341)
Changes in restricted cash and other investing activities	(12,030)	(22,589)
Net cash used in investing activities	(11,459)	(116,879)
Financing activities:		
Distributions on Common Units	(57,178)	(51,661)
Distributions on Preferred Units	(3,354)	(5,676)
Distributions to noncontrolling interests in consolidated affiliates	(245)	(471)
Net proceeds from the sale of Common Units	144,264	6,122
Repurchase of Common Units from noncontrolling interests		(3,293)
Borrowings on revolving credit facility	122,000	242,550
Repayments of revolving credit facility	(177,000)	(212,350)
Borrowings on mortgages and notes payable	53,424	164,995
Repayments of mortgages and notes payable	(173,846)	(105,161)
Contributions from noncontrolling interests in consolidated affiliates		625
Additions to deferred financing costs	(1,562)	(1,234)
Net cash (used in)/provided by financing activities	(93,497)	34,446
Net (decrease)/increase in cash and cash equivalents	(307)	871
Cash and cash equivalents at beginning of the period	13,649	3,144
Cash and cash equivalents at end of the period	$ 13,342	$ 4,015

See accompanying notes to consolidated financial statements.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued

(Unaudited and in thousands)

Supplemental disclosure of cash flow information:

	Six Months Ended June 30, 2009	2008
Cash paid for interest, net of amounts capitalized (excludes cash distributions to owners of sold properties accounted for as financings of $272 and $800 for 2009 and 2008,respectively)	$43,386	$50,459

Supplemental disclosure of non-cash investing and financing activities:

	Six Months Ended June 30, 2009	2008
Assets:		
Prepaid expenses and other assets	$ 192	$ 292
	$ 192	$ 292
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ (414)	$ 142
	$ (414)	$ 142
Redeemable Operating Partnership Units and Equity	$ 606	$ 150

See accompanying notes to consolidated financial statements.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

(tabular dollar amounts in thousands, except per unit data)

(Unaudited)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Highwoods Properties, Inc., together with its consolidated subsidiaries (the "Company"), is a fully-integrated, self-administered and self-managed equity real estate investment trust ("REIT") that operates in the southeastern and midwestern United States. The Company conducts virtually all of its activities through Highwoods Realty Limited Partnership (the Operating Partnership). As of June 30, 2009, the Company and/or the Operating Partnership wholly owned: 307 in-service office, industrial and retail properties; 96 rental residential units; 580 acres of undeveloped land suitable for future development, of which 490 acres are considered core holdings; an additional six office and industrial properties under development; and 61 for-sale residential condominiums.

The Company is the sole general partner of the Operating Partnership. As of June 30, 2009, the Company owned all of the preferred partnership interests (Preferred Units) and 70.4 million, or 94.6%, of the common partnership interests (Common Units) in the Operating Partnership. The Company has the right to put any and all of the Preferred Units to the Operating Partnership in exchange for their liquidation preference plus accrued and unpaid distributions in the event of a corresponding redemption by the Company of the underlying Preferred Stock. Limited partners (including certain officers and directors of the Company) own the remaining 4.1 million Common Units. Generally, the Operating Partnership is required to redeem each Common Unit at the request of the holder thereof for cash equal to the value of one share of the Company s Common Stock, $.01 par value (the Common Stock), based on the average of the market price for the 10 trading days immediately preceding the notice date of such redemption, provided that the Company at its option may elect to acquire any such Common Units presented for redemption for cash or one share of Common Stock. The Common Units owned by the Company are not redeemable. During the six months ended June 30, 2009, the Company redeemed 8,291 Common Units for a like number of shares of Common Stock.

Common Stock Offering

On June 1, 2009, the Company issued in a public offering approximately 7.0 million shares of Common Stock for net proceeds of $144.1 million. As required by the terms of the partnership agreement of the Operating Partnership, the net proceeds from the offering were contributed to the Operating Partnership in exchange for additional Common Units. The net impact of the offering and the redemptions discussed above was to increase the percentage of Common Units owned by the Company from 94.0% as of December 31, 2008 to 94.6% as of June 30, 2009. On June 1, 2009, we used a portion of the net proceeds of the offering to retire the remaining $107.2 million principal amount of a secured loan; we incurred no prepayment penalties. The remaining net proceeds from the offering were used to reduce the amount of borrowings outstanding under our revolving credit facility.

Basis of Presentation

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). As more fully described in Note 10, the Consolidated Statements of Income for the three and six months ended June 30, 2008 were revised from previously reported amounts to reflect in discontinued operations the operations for those properties sold during 2008 and the first six months of 2009 which qualified for discontinued operations presentation.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Effective January 1, 2009, we adopted SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160), which defines a noncontrolling interest in a consolidated subsidiary as the portion of the equity in a subsidiary not attributable, directly or indirectly, to the parent and requires noncontrolling interests to be presented as a separate component of equity in the Consolidated Balance Sheet subject to the provisions of EITF D-98, Classification and Measurement of Redeemable Securities (EITF D-98). SFAS No. 160 also modifies the presentation of net income by requiring earnings and other comprehensive income to be attributable to controlling and noncontrolling interests. SFAS No. 160 requires retroactive treatment for all periods presented. Below are the steps we have taken as a result of the implementation of this standard with respect to previously reported amounts:

- We have reclassified the noncontrolling interests in consolidated affiliates from the mezzanine section of our Consolidated Balance Sheet to equity. This reclassification totaled $6.2 million as of December 31, 2008.

- Net income attributable to noncontrolling interests in consolidated affiliates are no longer deducted when determining net income. As a result, net income for the three and six months ended June 30, 2008 increased $0.2 million and $0.4 million from the previously reported amounts, respectively. The adoption of this standard had no effect on our net income available for common unitholders or our earnings per common unit.

Effective January 1, 2009, we adopted FASB Staff Position EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). As a result, our weighted average common shares outstanding, basic and diluted, for the three and six months ended June 30, 2008 were revised from previously reported amounts to include our total number of restricted common units outstanding. For the three months ended June 30, 2008, weighted average common units outstanding, basic and diluted, are 516,076 and 330,166 units higher than previously reported, respectively. For the six months ended June 30, 2008, weighted average common units outstanding, basic and diluted, are 504,611 and 335,572 units higher than previously reported, respectively. Basic earnings per common unit for the three and six months ended June 30, 2008 is unchanged from amounts previously reported. Diluted earnings per common unit for the three months ended June 30, 2008 is unchanged from the amount previously reported and, for the six months ended June 30, 2008, is $0.01 lower than previously reported.

The Consolidated Financial Statements include wholly owned subsidiaries and those subsidiaries in which we own a majority voting interest with the ability to control operations and where no substantive participating rights or substantive kick out rights have been granted to the noncontrolling interest holders. All significant intercompany transactions and accounts have been eliminated.

The unaudited interim consolidated financial statements and accompanying unaudited consolidated financial information, in the opinion of management, contain all adjustments (including normal recurring accruals) necessary for a fair presentation of our financial position, results of operations and cash flows. We have omitted certain notes and other information from the interim consolidated financial statements presented in this Quarterly Report on Form 10-Q as permitted by SEC rules and regulations. These consolidated financial statements should be read in conjunction with our 2008 Annual Report on Form 10-K.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

The Company has elected and expects to continue to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. A corporate REIT is a legal entity that holds real estate assets and, through the payment of dividends to stockholders, is generally permitted to reduce or avoid the payment of federal and state income taxes at the corporate level. To maintain qualification as a REIT, the Company is required to pay dividends to its stockholders equal to at least 90.0% of its annual REIT taxable income, excluding capital gains. Under temporary IRS regulations, for 2009, distributions can be paid partially using a REIT s freely tradable stock so long as stockholders have the option of receiving at least 10% of the total distribution in cash. The partnership agreement requires the Operating Partnership to pay economically equivalent distributions on outstanding Common Units at the same time that the Company pays dividends on its outstanding Common Stock.

Noncontrolling Interests

We adopted SFAS No. 160 on January 1, 2009, as described previously, which establishes accounting and presentation standards for noncontrolling interests in subsidiaries.

Noncontrolling interests in consolidated affiliates relates to our respective joint venture partners 50.0% interest in Highwoods-Markel Associates, LLC (Markel) and estimated 19% economic interest in Plaza Residential, LLC (Plaza Residential). Each of our joint venture partners is an unrelated third party. We consolidate Markel since we are the general partner and effectively control the major operating and financial policies of the joint venture. We consolidate Plaza Residential since we own the majority interest in and effectively control the joint venture.

Recently Issued Accounting Standards

In June 2009, the FASB issued FASB No. 167, Amendments to FASB Interpretation No. 46(R) (FAS 167), which requires ongoing assessments to determine whether an entity is a variable entity and requires qualitative analysis to determine whether an enterprise s variable interest(s) give it a controlling financial interest in a variable interest entity. In addition, FAS 167 requires enhanced disclosures about an enterprise s involvement in a variable interest entity. FAS 167 is effective for the fiscal year that begins after November 15, 2009. We are currently evaluating the impact FAS 167 may have on our financial position, results of operations and disclosures.

2. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

We have equity interests ranging from 22.8% to 50.0% in various joint ventures with unrelated third parties. We account for our unconsolidated joint ventures using the equity method of accounting. As a result, the assets and liabilities of these joint ventures for which we use the equity method of accounting are not included in our Consolidated Balance Sheets.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

2. INVESTMENTS IN UNCONSOLIDATED AFFILIATES - Continued

Our combined, summarized income statements for our unconsolidated joint ventures were as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
Income Statements:				
Revenues	$ 35,971	$ 39,950	$ 73,464	$ 77,234
Expenses:				
Rental property and other expenses	17,468	19,447	35,568	37,288
Depreciation and amortization	8,397	8,762	16,851	15,825
Interest expense	8,650	8,970	17,412	17,224
Total expenses	34,515	37,179	69,831	70,337
Income before disposition of property	1,456	2,771	3,633	6,897
Gains on disposition of property	3,426		3,426	
Net income	$ 4,882	$ 2,771	$ 7,059	$ 6,897
Our share of:				
Net income **(1)**	$ 1,847	$ 1,508	$ 3,110	$ 3,481
Depreciation and amortization of real estate assets	$ 2,391	$ 3,352	$ 5,595	$ 6,245
Interest expense	$ 3,515	$ 3,661	$ 7,066	$ 7,161
Gain on disposition of depreciable properties	$ 781	$	$ 781	$

(1) Our share of net income differs from our weighted average ownership percentage in the joint ventures net income due to our purchase accounting and other related adjustments.

We have a 22.81% interest in a joint venture with Schweiz-Deutschland-USA Dreilander Beteiligung Objekt DLF 98/29-Walker Fink-KG. In the second quarter of 2009, this joint venture sold one property for gross proceeds of $14.8 million and recorded a gain of $3.4 million. We recorded $0.8 million as our proportionate share of this gain through equity in earnings of unconsolidated affiliates in the second quarter of 2009.

3. INVESTMENT ACTIVITIES

Dispositions

In the second quarter of 2009, we sold three non-core community retail centers aggregating 413,000 square feet in the Kansas City metropolitan area for gross proceeds of $62.1 million. A gain of $20.9 million was recorded in the second quarter of 2009.

Development

Development in process as of June 30, 2009 consisted primarily of two office properties aggregating 258,000 rentable square feet and 75 acres of vacant land undergoing infrastructure improvements. The aggregate cost, including leasing commissions, of the two properties currently is expected to be $64.1 million when fully leased and completed, of which $58.9 million had been incurred as of June 30, 2009. The dollar weighted average pre-leasing of these development properties was approximately 62% as of June 30, 2009.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

3. INVESTMENT ACTIVITIES - Continued

Additionally, we currently have three office properties and one industrial property recently completed, but not yet stabilized, aggregating 573,000 square feet. The aggregate cost, including leasing commissions, of these properties currently is expected to be $80.1 million when fully leased, of which $70.3 million had been incurred as of June 30, 2009. The dollar weighted average pre-leasing of these properties was approximately 43% as of June 30, 2009. The components of these properties are included in land, building and tenant improvements and deferred financing and leasing costs in our Consolidated Balance Sheet as of June 30, 2009.

For-Sale Residential Condominiums

We own a majority interest in Plaza Residential, LLC, a joint venture which was formed to develop and sell 139 for-sale residential condominiums constructed above an office tower developed by us in Raleigh, NC. For-sale residential condominiums in our Consolidated Balance Sheets include our completed, but unsold, condominium inventory as of June 30, 2009 and December 31, 2008. For the three and six months ended June 30, 2009, we sold five and 13 condominiums for net sales proceeds of $2.0 million and $5.2 million, respectively, and recorded gains of $0.3 million and $0.6 million, respectively. For the three and six months ended June 30, 2008, there were no corresponding sales or gains. Net sales proceeds include forfeitures of earnest money deposits of $0.2 million and $0.5 million for the three and six months ended June 30, 2009, respectively. We record forfeitures of earnest money deposits as income when entitled to claim the forfeited deposit upon legal default. Our estimate of our partner s economic ownership, which is impacted by a contractually-based promoted return, decreased from 25% as of December 31, 2008 to 19% as of June 30, 2009.

4. DEFERRED FINANCING AND LEASING COSTS

As of June 30, 2009 and December 31, 2008, we had deferred financing costs of $10.7 million and $14.7 million, respectively, with related accumulated amortization of $3.9 million and $7.8 million, respectively. As of June 30, 2009 and December 31, 2008, we had deferred leasing costs of $110.1 million and $111.1 million, respectively, with related accumulated amortization of $46.8 million and $44.8 million, respectively. Aggregate amortization expense (included in depreciation and amortization and amortization of deferred financing costs) for these intangibles for the three months ended June 30, 2009 and 2008 was $4.6 million and $4.5 million, respectively, and for the six months ended June 30, 2009 and 2008 was $9.1 million and $8.9 million, respectively.

The estimated aggregate amortization expense for each of the next five succeeding fiscal years is as follows:

July 1, 2009 through December 31, 2009	$ 8,304
2010	$ 13,660
2011	$ 10,894
2012	$ 10,221
2013	$ 6,856
2014	$ 4,486

5. MORTGAGES AND NOTES PAYABLE

Our consolidated mortgages and notes payable consisted of the following:

	June 30, 2009	December 31, 2008
Secured mortgage loans	$ 567,293	$ 655,186
Unsecured loans	861,357	949,499
Total	$ 1,428,650	$ 1,604,685

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

5. MORTGAGES AND NOTES PAYABLE - Continued

As of June 30, 2009, our secured mortgage loans were secured by real estate assets with an aggregate undepreciated book value of $908.7 million.

Our $450.0 million unsecured revolving credit facility is scheduled to mature on May 1, 2010. The interest rate is LIBOR plus 80 basis points and the annual base facility fee is 20 basis points. The interest rate would increase to LIBOR plus 140 or 155 basis points if our credit rating were to fall below investment grade according to two of three major credit rating agencies. Our revolving credit facility had $338.5 million of availability as of June 30, 2009 and had $355.5 million of availability as of July 31, 2009.

Our $70.0 million secured construction facility is initially scheduled to mature on December 20, 2010. Assuming no defaults have occurred, we have options to extend the maturity date for two successive one-year periods. The interest rate is LIBOR plus 85 basis points. Our secured construction facility had $28.3 million of availability as of June 30, 2009 and July 31, 2009.

In January 2009, we paid off at maturity $50.0 million of 8.125% unsecured notes using borrowings under our revolving credit facility.

In March 2009, we obtained a $20.0 million, three-year unsecured term loan with a bank lender. The interest rate is LIBOR plus 250 basis points, subject to a minimum total interest rate of 3.9%.

In June 2009, we retired the remaining $107.2 million principal amount of a secured loan using a portion of the net proceeds of our Common Stock offering on June 1, 2009. We incurred no prepayment penalties.

Our revolving credit facility, variable rate term loans and the indenture that governs our outstanding notes require us to comply with customary operating covenants and various financial and operating ratios. We and the Company are each currently in compliance with all such requirements.

6. SHARE-BASED PAYMENTS

During the six months ended June 30, 2009, the Company granted under its Amended and Restated 1994 Stock Option Plan 394,044 stock options at an exercise price equal to the closing market price of a share of our common stock on the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, which resulted in a weighted-average grant date fair value per share of $1.80. During the six months ended June 30, 2009, the Company also granted 128,384 shares of time-based restricted stock and 99,910 shares of total return-based restricted stock with weighted-average grant date fair values per share of $19.33 and $10.13, respectively. The Company recorded stock-based compensation expense of $1.7 million each during the three months ended June 30, 2009 and 2008. The Company recorded stock-based compensation expense of $3.6 million and $3.9 million during the six months ended June 30, 2009 and 2008, respectively. As of June 30, 2009, there was $10.6 million of total unrecognized stock-based compensation costs, which will be recognized over a weighted average remaining contractual term of 1.5 years.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

7. DERIVATIVE INSTRUMENTS

To meet, in part, our liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility, construction facility and bank term loans bear interest at variable rates. Our long-term debt, which consists of secured and unsecured long-term financings and the issuance of unsecured debt securities, typically bears interest at fixed rates although some loans bear interest at variable rates. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time, we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes. The interest rate on all of our variable rate debt is generally adjusted at one or three month intervals, subject to settlements under these interest rate hedge contracts. We also enter into treasury lock agreements from time to time in order to limit our exposure to an increase in interest rates with respect to future debt offerings.

In prior periods, we entered into certain interest rate hedging arrangements which were designated and are being accounted for as cash flow hedges. The effective portion of these arrangements, representing deferred interest expense, was $0.9 million as of June 30, 2009 and is included in Accumulated Other Comprehensive Loss (AOCL). This deferred expense will be recognized as an addition to interest expense in the same periods during which interest expense on the hedged financings affects net income. We expect approximately $0.2 million will be recognized as a decrease to interest expense within the next 12 months.

In January 2008, we entered into two floating-to-fixed interest rate swaps for a one-year period with respect to an aggregate of $50.0 million of borrowings outstanding under our revolving credit facility or other floating rate debt. These swaps fixed the underlying LIBOR rate upon which interest on such borrowings is based at 3.26% for $30.0 million of borrowings and 3.24% for $20.0 million of borrowings. These swaps were designated and accounted for as cash flow hedges and matured in January 2009.

In April 2008, we entered into a floating-to-fixed interest rate swap for a two-year period with respect to an aggregate of $50.0 million of borrowings outstanding under our term loan or other floating rate debt. The swap fixes the underlying LIBOR rate upon which interest on such borrowings is based at 2.52%. The counterparty under this swap is Bank of America, N.A. The swap was designated and is being accounted for as a cash flow hedge. The effective portion of the swap representing deferred interest expense was $0.8 million as of June 30, 2009 and is included in AOCL. We expect all of the balance to be recognized as an increase to interest expense within the next ten months.

In October 2008, we entered into a floating-to-fixed interest rate swap for a one-year period with respect to an aggregate of $25.0 million of borrowings outstanding under our term loan or other floating rate debt. The swap fixes the underlying LIBOR rate upon which interest on such borrowings is based at 2.35%. The counterparty under this swap is PNC Bank, N.A. The swap was designated and is being accounted for as a cash flow hedge. The effective portion of the swap representing deferred interest expense was $0.2 million as of June 30, 2009 and is included in AOCL. We expect all of the balance to be recognized as an increase to interest expense within the next four months.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

8. OTHER COMPREHENSIVE INCOME/(LOSS)

Other comprehensive income/(loss) represents net income plus the changes in certain amounts deferred in accumulated other comprehensive income/(loss) related to hedging and other activities not reflected in the Consolidated Statements of Income. The components of other comprehensive income/(loss) are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income	$ 37,059	$ 16,001	$ 50,222	$ 32,722
Other comprehensive income/(loss):				
Unrealized gain/(loss) on tax increment financing bonds	226	187	192	(374)
Unrealized derivative net gains on cash-flow hedges	217	933	414	524
Amortization of past cash flow hedges	(71)	46	(141)	126
Total other comprehensive income	372	1,166	465	276
Total comprehensive income	$ 37,431	$ 17,167	$ 50,687	$ 32,998

9. FAIR VALUE MEASUREMENTS

The following summarizes the three levels of inputs that we use to measure fair value, as well as the assets, mezzanine noncontrolling interests and liabilities that we recognize at fair value using those levels of inputs.

Level 1. Quoted prices in active markets for identical assets or liabilities.

Our Level 1 assets are comprised of investments in marketable securities which we use to pay benefits under our deferred compensation plan. Our Level 1 noncontrolling interests in the Operating Partnership are comprised of Common Units in the Operating Partnership not owned by the Company. Our Level 1 liabilities are our obligations to pay certain deferred compensation plan benefits whereby participants have designated investment options (primarily mutual funds) to serve as the basis for measurement of the notional value of their accounts.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.

Our Level 2 liabilities are interest rate swaps whose fair value is determined using a pricing model based upon observable market inputs.

Level 3. Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Our Level 3 asset is our tax increment financing bond issued by a municipal authority in connection with our construction of a public parking facility that is not routinely traded but whose fair value is determined using an estimate of projected redemption value based on quoted bid/ask prices for similar unrated municipal bonds. This available for-sale security is carried at estimated fair value in prepaid and other assets with unrealized gains or losses reported in accumulated other comprehensive loss. The estimated fair value as of June 30, 2009 was $2.5 million below the outstanding principal due on the bond. We currently intend to hold this bond, which amortizes to maturity in 2020, and do not believe that we will be required to sell this bond before recovery. Payment of the principal and interest for the bond is guaranteed by us and, therefore, we have recorded no credit losses related to the bond s impairment. Our Level 3 liability is our SF-HIW Harborview Plaza, LP financing obligation that is not traded but whose fair value is determined using an estimate of discounted cash flows dependent on future leasing assumptions for the property.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

9. FAIR VALUE MEASUREMENTS - Continued

The following table sets forth the assets and liabilities that we measured at fair value on a recurring basis by level within the fair value hierarchy.

	Balance at June 30, 2009	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Assets:				
Marketable securities (in prepaid and other assets) **(1)**	$ 5,200	$ 5,200	$	$
Tax increment financing bond (in prepaid expenses and other assets)	17,660			17,660
Total Assets	$ 22,860	$ 5,200	$	$ 17,660
Liabilities:				
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	$ 962	$	$ 962	$
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	5,808	5,808		
SF-Harborview Plaza, LP financing obligation	17,172			17,172
Total Liabilities	$ 23,942	$ 5,808	$ 962	$ 17,172

(1) The marketable securities are held through our officer deferred compensation plans.

The following table sets forth our Level 3 asset and liability.

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Asset:		
Tax Increment Financing Bond		
Beginning balance	$ 17,434	$ 17,468

Unrealized gain (in AOCL)	226	192
Ending balance	$ 17,660	$ 17,660
Liability:		
SF-Harborview Plaza, LP Financing Obligation		
Beginning balance	$ 16,934	$ 16,604
Payments on financing obligation	(162)	(272)
Interest expense on financing obligation	400	840
Ending balance	$ 17,172	$ 17,172

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

9. FAIR VALUE MEASUREMENTS - Continued

The following estimated fair values were determined by management using available market information and appropriate valuation methodologies. Considerable judgment is used to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize upon disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values. The carrying amounts and estimated fair values of our financial instruments were as follows:

	Carrying Amount	Fair Value
June 30, 2009		
Cash and cash equivalents	$ 13,372	$ 13,372
Restricted cash	$ 14,707	$ 14,707
Accounts and notes receivable	$ 21,380	$ 21,380
Marketable securities (in prepaid expenses and other assets)	$ 5,200	$ 5,200
Tax increment financing bond (in prepaid expenses and other assets)	$ 17,660	$ 17,660
Mortgages and notes payable	$ 1,428,650	$ 1,286,867
Financing obligations	$ 34,758	$ 32,748
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	$ 962	$ 962
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	$ 5,808	$ 5,808
December 31, 2008		
Cash and cash equivalents	$ 13,757	$ 13,757
Restricted cash	$ 2,258	$ 2,258
Accounts and notes receivable	$ 27,289	$ 27,289
Marketable securities (in prepaid expenses and other assets)	$ 5,422	$ 5,422
Tax increment financing bond (in prepaid expenses and other assets)	$ 17,468	$ 17,468
Mortgages and notes payable	$ 1,604,685	$ 1,330,899
Financing obligations	$ 34,174	$ 32,219
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	$ 1,376	$ 1,376
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	$ 6,522	$ 6,522

The fair values of our mortgages and notes payable and financing obligations were estimated using discounted cash flow analyses based on estimated market rates on similar borrowing arrangements at June 30, 2009 and December 31, 2008, respectively. The carrying amounts of our cash and cash equivalents, accounts and notes receivable equal or approximate fair value.

Disclosures about the fair value of financial instruments are based on relevant information available to us at June 30, 2009. Although management is not aware of any factors that would have a material effect on the fair value amounts reported herein, such amounts have not been revalued since that date and current estimates of fair value may significantly differ from the amounts presented herein.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

10. DISCONTINUED OPERATIONS

As part of our business strategy, we from time to time selectively dispose of non-core properties and use the net proceeds for investments, for repayment of debt and/or retirement of Preferred Stock, or other purposes. The table below sets forth the net operating results of those assets classified as discontinued operations in our Consolidated Financial Statements. These assets classified as discontinued operations comprise 1.2 million square feet of office and retail properties and 13 rental residential units sold during 2008 and the six months ended June 30, 2009. The operations of these assets have been reclassified from our ongoing operations to discontinued operations, and we will not have any significant continuing involvement in the operations after the disposal transactions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Rental and other revenues	$ 1,384	$ 3,698	$ 3,535	$ 7,773
Operating expenses:				
Rental property and other expenses	448	1,337	1,351	3,016
Depreciation and amortization	155	624	550	1,386
Total operating expenses	603	1,961	1,901	4,402
Other income		8	2	19
Income before gains on disposition of discontinued operations	781	1,745	1,636	3,390
Gains on disposition of discontinued operations	20,943	5,027	21,016	8,753
Total discontinued operations	$ 21,724	$ 6,772	$ 22,652	$ 12,143

11. EARNINGS PER UNIT

As described in Note 1, effective January 1, 2009, we adopted FSP EITF 03-6-1, which required us to retroactively revise our weighted average common units outstanding, basic and diluted, to include our total number of restricted shares outstanding.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

11. EARNINGS PER UNIT - Continued

The following table sets forth the computation of basic and diluted earnings per common unit:

	Three Months Ended June 30, 2009	2008	Six Months Ended June 30, 2009	2008
Earnings per common unit - basic:				
Numerator:				
Income from continuing operations	$ 15,335	$ 9,229	$ 27,570	$ 20,579
Noncontrolling interests in consolidated affiliates	(116)	(191)	(134)	(389)
Distributions on preferred units	(1,677)	(2,838)	(3,354)	(5,676)
Income from continuing operations available for common unitholders	13,542	6,200	24,082	14,514
Income from discontinued operations	21,724	6,772	22,652	12,143
Net income available for common unitholders	$ 35,266	$ 12,972	$ 46,734	$ 26,657
Denominator:				
Denominator for basic earnings per common unit weighted average units **(1)**	69,776	60,993	68,539	60,885
Earnings per common unit - basic:				
Income from continuing operations available for common unitholders	$ 0.20	$ 0.10	$ 0.35	$ 0.24
Income from discontinued operations available for common unitholders	0.31	0.11	0.33	0.20
Net income available for common unitholders	$ 0.51	$ 0.21	$ 0.68	$ 0.44
Earnings per common unit - diluted:				
Numerator:				
Income from continuing operations	$ 15,335	$ 9,229	$ 27,570	$ 20,579
Noncontrolling interests in consolidated affiliates	(116)	(191)	(134)	(389)
Distributions on preferred units	(1,677)	(2,838)	(3,354)	(5,676)
Income from continuing operations available for common unitholders	13,542	6,200	24,082	14,514
Income from discontinued operations	21,724	6,772	22,652	12,143
Net income available for common unitholders	$ 35,266	$ 12,972	$ 46,734	$ 26,657
Denominator:				
Denominator for basic earnings per common units weighted average units	69,776	60,993	68,539	60,885
Add:				
Employee and director stock options and warrants	49	420	30	331
Denominator for diluted earnings per common units adjusted weighted average units and assumed conversions **(1)**	69,825	61,413	68,569	61,216
Earnings per common unit - diluted:				
Income from continuing operations available for common unitholders	$ 0.20	$ 0.10	$ 0.35	$ 0.24
Income from discontinued operations available for common unitholders	0.31	0.11	0.33	0.20
Net income available for common unitholders	$ 0.51	$ 0.21	$ 0.68	$ 0.44

(1) Options and warrants aggregating 1.2 million and 0.2 million units were outstanding during the three months ended June 30, 2009 and 2008, respectively, and 1.3 and 0.4 million units were outstanding during the six months ended June 30, 2009 and 2008, respectively but were not included in the treasury method calculation for diluted earnings per common units because the exercise prices of the options and warrants were higher than the average market price of Common Units during these periods.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

12. SEGMENT INFORMATION

Our principal business is the acquisition, development and operation of rental real estate properties. We evaluate our business by product type and by geographic locations. Each product type has different customers and economic characteristics as to rental rates and terms, cost per square foot of buildings, the purposes for which customers use the space, the degree of maintenance and customer support required and customer dependency on different economic drivers, among others. The operating results by geographic grouping are also regularly reviewed by our chief operating decision maker for assessing performance and other purposes. There are no material inter-segment transactions.

The accounting policies of the segments are the same as those described in Note 1 included herein. All operations are within the United States and, as of June 30, 2009, no tenant of the Wholly Owned Properties comprised more than 8.7% of our consolidated revenues.

The following table summarizes the rental income and net operating income for each reportable segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Rental and Other Revenues: (1) (2) (3)				
Office:				
Atlanta, GA	$ 12,106	$ 11,733	$ 23,606	$ 23,288
Greenville, SC	3,601	3,498	7,239	6,760
Kansas City, MO	3,712	3,835	7,459	7,518
Memphis, TN	7,409	6,376	14,441	12,509
Nashville, TN	15,637	15,417	31,041	30,191
Orlando, FL	2,845	2,769	5,795	5,176
Piedmont Triad, NC	6,565	6,677	13,109	13,294
Raleigh, NC	18,224	16,487	36,574	35,020
Richmond, VA	11,240	12,834	22,951	24,425
Tampa, FL	16,592	17,030	33,133	32,856
Total Office Segment	97,931	96,656	195,348	191,037
Industrial:				
Atlanta, GA	3,931	3,815	7,872	7,901
Piedmont Triad, NC	3,301	3,577	7,677	7,284
Total Industrial Segment	7,232	7,392	15,549	15,185
Retail:				
Kansas City, MO	7,666	8,337	15,280	16,933
Piedmont Triad, NC	149	144	292	284
Raleigh, NC	30		60	

Total Retail Segment	7,845	8,481	15,632	17,217
Residential:				
Kansas City, MO	302	299	594	602
Total Residential Segment	302	299	594	602
Total Rental and Other Revenues	$ 113,310	$ 112,828	$ 227,123	$ 224,041

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

12. SEGMENT INFORMATION - Continued

	Three Months Ended June 30, 2009	2008
Net Operating Income: (1) (2) (3)		
Office:		
Atlanta, GA	$8,048	$7,47
Greenville, SC	2,342	2,19
Kansas City, MO	2,263	2,34
Memphis, TN	4,050	3,80
Nashville, TN	10,331	10,0
Orlando, FL	1,462	1,47
Piedmont Triad, NC	4,395	4,31
Raleigh, NC	12,800	10,4
Richmond, VA	8,072	8,47
Tampa, FL	9,528	10,3
Other	(2)	(36
Total Office Segment	63,289	60,8
Industrial:		
Atlanta, GA	2,938	2,85
Piedmont Triad, NC	2,447	2,81
Total Industrial Segment	5,385	5,66
Retail:		
Atlanta, GA **(4)**	(6)	(9
Kansas City, MO	5,093	5,66
Piedmont Triad, NC	124	117
Raleigh, NC	8	(25
Total Retail Segment	5,219	5,75
Residential:		
Kansas City, MO	183	66
Raleigh, NC **(4)**	(129)	6
Total Residential Segment	54	72
Total Net Operating Income	73,947	72,3
Reconciliation to income before disposition of property and condominiums and equity in earnings of unconsolidated affiliates:		
Depreciation and amortization	(32,931)	(30,
General and administrative expense	(9,581)	(10,
Interest expense	(21,344)	(24,
Interest and other income	2,914	1,59
Income before disposition of property and condominiums and equity in earnings of unconsolidated affiliates	$13,005	$7,61

(1) Net of discontinued operations.
(2) The Piedmont Triad market encompasses the Greensboro and Winston-Salem metropolitan area.
(3) The Raleigh market encompasses the Raleigh, Durham, Cary and Research Triangle metropolitan area.
(4) Negative NOI with no corresponding revenues represents expensed real estate taxes and other carrying costs associated with land held for development that is currently zoned for retail and residential properties.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular dollar amounts in thousands, except per unit data)

13. SUBSEQUENT EVENTS

We have evaluated events subsequent to June 30, 2009 and through August 4, 2009 (the issuance date of this interim report on Form 10-Q) for purposes of these financial statements and disclosures.

We have a 42.93% interest in a joint venture with Dreilander-Fonds 97/26 and 99/32. Subsequent to June 30, 2009, this joint venture classified one property as held for sale and, on July 24, 2009, sold this asset for gross proceeds of $7.1 million. The joint venture will record a $0.5 million impairment loss in the third quarter of 2009. We will record $0.2 million as our proportionate share of this impairment loss through equity in earnings of unconsolidated affiliates in the third quarter of 2009.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company is a fully integrated, self-administered and self-managed equity REIT that provides leasing, management, development, construction and other customer-related services for our properties and for third parties. The Company conducts virtually all of its activities through the Operating Partnership and is its sole general partner. As of June 30, 2009, we owned or had an interest in 378 in-service office, industrial and retail properties, encompassing approximately 35.2 million square feet, which includes six office and industrial development properties that had not yet reached 95% stabilized occupancy aggregating 831,000 square feet and a 12.5% interest in a 261,000 square foot office property directly owned by the Company (included in the Company s Consolidated Financial Statements, but not included in the Operating Partnership s Consolidated Financial Statements), 61 for-sale residential condominiums and 514 rental residential units. We are based in Raleigh, North Carolina, and our properties and development land are located in Florida, Georgia, Iowa, Maryland, Mississippi, Missouri, North Carolina, South Carolina, Tennessee and Virginia. Additional information about us can be found on our website at www.highwoods.com. Information on our website is not part of this Quarterly Report.

You should read the following discussion and analysis in conjunction with the accompanying Consolidated Financial Statements and related notes contained elsewhere in this Quarterly Report.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Some of the information in this Quarterly Report may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects under this section and under the heading Business. You can identify forward-looking statements by our use of forward-looking terminology such as may, will, expect, anticipate, estimate, continue or other similar words. Although we believe plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that our plans, intentions or expectations will be achieved. When considering such forward-looking statements, you should keep in mind the following important factors that could cause our actual results to differ materially from those contained in any forward-looking statement:

- the financial condition of our tenants could deteriorate;
- we may not be able to lease or release second generation space quickly or on as favorable terms as old leases;
- we may not be able to lease our newly constructed buildings as quickly or on as favorable terms as originally anticipated;
- we may not be able to complete development, acquisition, reinvestment, disposition or joint venture projects as quickly or on as favorable terms as anticipated;
- development activity by our competitors in our existing markets could result in an excessive supply of office, industrial and retail properties relative to tenant demand;

our southeastern and midwestern markets may suffer declines in economic growth;

difficulties in obtaining additional capital to satisfy our future cash needs or increases in interest rates could adversely impact our ability to fund important business initiatives and increase our debt service costs;

we may not be able to meet our liquidity requirements or obtain capital on favorable terms to fund our working capital needs and growth initiatives or to repay or refinance outstanding debt upon maturity; and

the Company could lose key executive officers.

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This list of risks and uncertainties, however, is not intended to be exhaustive. You should also review the other cautionary statements we make in Business Risk Factors set forth in our 2008 Annual Report on Form 10-K. Given these uncertainties, you should not place undue reliance on forward-looking statements. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements to reflect any future events or circumstances or to reflect the occurrence of unanticipated events.

RESULTS OF OPERATIONS

Results for the three and six months ended June 30, 2008 were reclassified from previously reported amounts to reflect in discontinued operations the operations for those properties sold during 2008 and the first six months of 2009 which qualified for discontinued operations presentation and the retroactive adoptions of SFAS No. 160 and FSP EITF 03-6-1.

Three Months Ended June 30, 2009 and 2008

Rental and Other Revenues

While we own and operate a number of industrial, retail and residential properties, our operating results depend heavily on successfully leasing and operating our office properties. Economic growth in the areas in which we operate is and will continue to be an important determinative factor in predicting our future operating results.

The key components affecting our rental and other revenues are average occupancy, rental rates, new developments placed in service, acquisitions and dispositions. Average occupancy generally increases during times of improving economic growth, as our ability to lease space outpaces vacancies that occur upon the expirations of existing leases. Average occupancy generally declines during times of slower or negative economic growth, when new vacancies tend to outpace our ability to lease space. Asset acquisitions, dispositions and new developments placed in service directly impact our rental revenues and could impact our average occupancy, depending upon the occupancy rate of the properties that are acquired, sold or placed in service. A further indicator of the predictability of future revenues is the expected lease expirations of our portfolio. As a result, in addition to seeking to increase our average occupancy by leasing current vacant space, we also must concentrate our leasing efforts on renewing leases on expiring space. For more information regarding our lease expirations, see Properties Lease Expirations in our 2008 Annual Report on Form 10-K.

Rental and other revenues from continuing operations were virtually unchanged in the second quarter of 2009 as compared to the second quarter of 2008 primarily due to higher revenues from the contribution of development properties placed in service in 2008 and the first six months of 2009, the acquisition of the PennMarc building in Memphis, TN and higher average rental rates, offset by lower revenues due to lower occupancy in our same property portfolio and the sale of an office condominium in the second quarter of 2008.

Operating Expenses

Our expenses primarily consist of rental property expenses, depreciation and amortization, general and administrative expenses and interest expense. Rental property expenses are expenses associated with our ownership and operation of rental properties and include expenses that vary somewhat proportionately to occupancy levels, such as common area maintenance and utilities, and expenses that do not vary based on occupancy, such as property taxes and insurance. Depreciation and amortization is a non-cash expense associated with the ownership of real property and generally remains relatively consistent each year, unless we buy, place in service or sell assets, since we depreciate our properties and related building and tenant improvement assets on a straight-line basis over a fixed life. General and administrative expenses, net of amounts capitalized, consist primarily of management and employee salaries and other personnel costs, corporate overhead and long-term incentive compensation.

Rental property and other expenses were 2.6% lower in the second quarter of 2009 as compared to the second quarter of 2008 primarily due to lower expenses from better operational efficiency in our same property portfolio and the sale of an office condominium in the second quarter of 2008, partly offset by higher expenses from the contribution of development properties placed in service in 2008 and the first six months of 2009 and the acquisition of the PennMarc building in Memphis, TN.

Operating margin, defined as rental and other revenues less rental property and other expenses expressed as a percentage of rental and other revenues, increased to 65.2% in the second quarter of 2009 as compared to 64.1% in the second quarter of 2008 as a result of better operational efficiency in our same property portfolio.

Depreciation and amortization was 7.1% higher in the second quarter of 2009 as compared to the second quarter of 2008 primarily due to higher depreciation and amortization from the contribution of development properties placed in service in 2008 and the first six months of 2009, the acquisition of the PennMarc building in Memphis, TN and the accelerated depreciation and amortization of tenant improvements and lease commissions for early terminated leases.

General and administrative expenses were 11.9% lower in the second quarter of 2009 as compared to the second quarter of 2008 primarily due to lower expenses from unsuccessful projects and headcount reductions, partly offset by higher deferred compensation expense caused by an increase in the value of marketable securities held through our officer deferred compensation plans and lower capitalization of costs.

Other Income

Other income was $1.3 million higher in the second quarter of 2009 as compared to the second quarter of 2008 primarily due to higher income from an increase in the value of marketable securities held through our officer deferred compensation plans and gain on the extinguishment of $3.2 million principal amount of certain outstanding bonds.

Interest Expense

Interest expense depends upon the amount of our borrowings, the weighted average interest rates on our debt and the amount of interest capitalized on development projects.

Contractual interest expense is shown net of amounts capitalized to development projects. Contractual interest expense was 14.6% lower in the second quarter of 2009 as compared to the second quarter of 2008 primarily due to lower expense from lower average borrowings resulting from de-leveraging efforts using the proceeds of our sales of common stock in September 2008 and June 2009, partly offset by lower capitalized interest resulting from decreased development in process.

Discontinued Operations

The Company classified income of $21.7 million and $6.8 million as discontinued operations in the second quarter of 2009 and the second quarter of 2008, respectively. These amounts relate to 1.2 million square feet of office and retail properties and 13 rental residential units sold during 2008 and the first six months of 2009, and include gains on the sale of these properties of $20.9 million and $5.0 million in the second quarter of 2009 and the second quarter of 2008, respectively.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests was $1.2 million higher in the second quarter of 2009 as compared to the second quarter of 2008 primarily due to the noncontrolling interests in the Operating Partnership s share of gains on the sale of properties classified as discontinued operations in the second quarter of 2009.

Dividends on Preferred Equity

Dividends on preferred equity were 40.9% lower in the second quarter of 2009 as compared to the second quarter of 2008 due to the retirement of $53.8 million of preferred equity in September 2008.

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Six Months Ended June 30, 2009 and 2008

Rental and Other Revenues

Rental and other revenues from continuing operations were 1.4% higher in the first six months of 2009 as compared to the first six months of 2008 primarily due to higher revenues from the contribution of development properties placed in service in 2008 and the first six months of 2009, the acquisition of the PennMarc building in Memphis, TN and higher average rental rates, partly offset by lower revenues due to lower occupancy in our same property portfolio and the sale of an office condominium in the second quarter of 2008.

Operating Expenses

Rental property and other expenses were 2.7% higher in the first six months of 2009 as compared to the first six months of 2008 primarily due to higher expenses from the contribution of development properties placed in service in 2008 and the first six months of 2009, the acquisition of the PennMarc building in Memphis, TN, and general inflationary increases in same property utilities, taxes and insurance, partly offset by the sale of an office condominium in the second quarter of 2008.

Operating margin, defined as rental and other revenues less rental property and other expenses expressed as a percentage of rental and other revenues, declined to 64.6% in the first six months of 2009 as compared to 65.1% in the first six months of 2008 as a result of general inflationary increases in same property utilities, taxes and insurance.

Depreciation and amortization was 8.0% higher in the first six months of 2009 as compared to the first six months of 2008 primarily due to higher depreciation and amortization from the contribution of development properties placed in service in 2008 and the first six months of 2009, the acquisition of the PennMarc building in Memphis, TN and the accelerated depreciation and amortization of tenant improvements and lease commissions for early terminated leases.

General and administrative expenses were 13.1% lower in the first six months of 2009 as compared to the first six months of 2008 primarily due to lower expenses from unsuccessful projects and headcount reductions, partly offset by higher deferred compensation expense caused by an increase in the value of marketable securities held through our officer deferred compensation plans and lower capitalization of costs.

Other Income

Other income was $1.5 million higher in the first six months of 2009 as compared to the first six months of 2008 primarily due to higher income from an increase in the value of marketable securities held through our officer deferred compensation plans and gain on the extinguishment of $3.2 million principal amount of certain outstanding bonds.

Interest Expense

Contractual interest expense is shown net of amounts capitalized to development projects. Contractual interest expense was 13.4% lower in the first six months of 2009 as compared to the first six months of 2008 primarily due to lower expense from lower average borrowings resulting from de-leveraging efforts using the proceeds of our sales of common stock in September 2008 and June 2009, partly offset by lower capitalized interest resulting from decreased development in process.

Discontinued Operations

The Company classified income of $22.7 million and $12.1 million as discontinued operations in the first six months of 2009 and the first six months of 2008, respectively. These amounts relate to 1.2 million square feet of office and industrial properties and 13 rental residential units sold during 2008 and the first six months of 2009, and include net gains on the sale of these properties of $21.0 million and $8.8 million in the first six months of 2009 and the first six months of 2008, respectively.

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Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests was $1.0 million higher in the first six months of 2009 as compared to the first six months of 2008 primarily due to the noncontrolling interests in the Operating Partnership s share of gains on the sale of properties classified as discontinued operations in the second quarter of 2009.

Dividends on Preferred Equity

Dividends on preferred equity were 40.9% lower in the first six months of 2009 as compared to the first six months of 2008 due to the retirement of $53.8 million of preferred equity in September 2008.

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LIQUIDITY AND CAPITAL RESOURCES

Overview

Our goal is to maintain a conservative and flexible balance sheet. We generally use rents received from customers to fund our operating expenses, recurring capital expenditures and distributions. To fund property acquisitions, development activity or building renovations and repay debt upon maturity, we may sell assets, obtain new debt and/or issue equity. Our debt generally consists of mortgage debt, unsecured debt securities and borrowings under our secured and unsecured credit facilities. To generate additional capital to fund our growth and other strategic initiatives and to lessen the ownership risks typically associated with owning 100.0% of a property, we may also sell or contribute some of our properties to joint ventures.

Statements of Cash Flows

As required by GAAP, we report and analyze our cash flows based on operating activities, investing activities and financing activities. The following table sets forth the changes in the Company s cash flows ($ in thousands):

	Six Months Ended June 30, 2009	**2008**	**Change**
Cash Provided By Operating Activities	$ 104,639	$ 83,243	$ 21,396
Cash (Used In) Investing Activities	(11,449)	(116,879)	105,430
Cash (Used In)/Provided by Financing Activities	(93,575)	34,529	(128,104)
Total Cash Flows	$ (385)	$ 893	$ (1,278)

In calculating cash flow from operating activities, depreciation and amortization, which are non-cash expenses, are added back to net income. As a result, we have historically generated a positive amount of cash from operating activities. From period to period, cash flow from operations depends primarily upon changes in our net income, as discussed more fully above under Results of Operations, changes in receivables and payables, and net additions or decreases in our overall portfolio, which affect the amount of depreciation and amortization expense.

Cash used in or provided by investing activities generally relates to capitalized costs incurred for leasing and major building improvements and our acquisition, development, disposition and joint venture activity. During periods of significant net acquisition and/or development activity, our cash used in such investing activities will generally exceed cash provided by investing activities, which typically consists of cash received upon the sale of properties and distributions of capital from our joint ventures.

Cash used in or provided by financing activities generally relates to distributions, incurrence and repayment of debt and sales, repurchases or redemptions of Common Stock, Common Units and Preferred Stock. As discussed previously, we use a significant amount of our cash to fund distributions. Whether or not we have increases in the outstanding balances of debt during a period depends generally upon the net effect of our acquisition, disposition, development and joint venture activity. We generally use our revolving credit facility for working capital purposes, which means that during any given period, in order to minimize interest expense, we will likely record significant repayments and borrowings under our revolving credit facility.

The increase of $21.4 million in cash provided by operating activities of the Company in the first six months of 2009 compared to the first six months of 2008 was primarily the result of the net increase in the change in operating assets and liabilities as well as cash flows from net income as adjusted for changes in depreciation and amortization, gain on extinguishment of debt, gains on disposition of properties and for-sale residential condominiums, equity in earnings of unconsolidated affiliates, and distributions of earnings from unconsolidated affiliates.

The decrease of $105.4 million in cash used in investing activities in the first six months of 2009 compared to the first six months of 2008 was primarily the result of lower capital expenditures, higher proceeds from dispositions of buildings and for-sale residential condominiums, lower contributions to unconsolidated affiliates, changes in restricted cash and other investing activities, and higher distributions of capital from unconsolidated affiliates, offset by lower repayments in notes receivable.

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The decrease of $128.1 million in cash used in or provided by financing activities in the first six months of 2009 compared to the first six months of 2008 was primarily the result of lower net borrowings from mortgages and notes payable and our revolving credit facility and higher distributions resulting from an increase in the number of shares of Common Stock outstanding from our sales of common stock in September 2008 and June 2009, offset by higher proceeds from the sale of common stock, lower distributions on preferred equity and lower repurchases of common equity.

Capitalization

The following table sets forth the Company s capitalization (in thousands, except per share amounts):

	June 30, 2009	**December 31, 2008**
Mortgages and notes payable, at recorded book value	$ 1,428,650	$ 1,604,685
Financing obligations	$ 34,758	$ 34,174
Preferred Stock, at liquidation value	$ 81,592	$ 81,592
Common Stock outstanding	70,848	63,572
Noncontrolling interest partnership units	4,059	4,067
Per share stock price at period end	$ 22.37	$ 27.36
Market value of Common Stock and Common Units	$ 1,675,670	$ 1,850,603
Total market capitalization with debt and obligations	$ 3,220,670	$ 3,571,054

Based on our total market capitalization of approximately $3.2 billion as of June 30, 2009 (at the June 30, 2009 per share stock price of $22.37 and assuming the redemption for shares of Common Stock of the approximate 4.1 million Common Units not owned by the Company), our mortgages and notes payable represented 44.4% of our total market capitalization.

Mortgages and notes payable as of June 30, 2009 was comprised of $567 million of secured indebtedness with a weighted average interest rate of 5.97% and $862 million of unsecured indebtedness with a weighted average interest rate of 5.07%. As of June 30, 2009, our outstanding mortgages and notes payable and financing obligations were secured by real estate assets with an aggregate undepreciated book value of $908.7 million.

Current and Future Cash Needs

Rental and other revenues are our principal source of funds to meet our short-term liquidity requirements. Other sources of funds for short-term liquidity needs include available working capital and borrowings under our existing revolving credit facility and revolving construction credit facility (which had $355.5 million and $28.3 million of availability, respectively, as of July 31, 2009). Our short-term liquidity requirements primarily consist of operating expenses, interest and principal amortization on our debt, distributions and recurring capital expenditures, including building improvement costs, tenant improvement costs and lease commissions. Building improvements are recurring capital costs not related to a specific customer to maintain existing buildings. Recurring tenant improvements are the costs required to customize space for the specific needs of customers in spaces other than in new development projects. We anticipate that our available cash and cash equivalents and cash flows from operating activities, together with cash available from borrowings under our credit facilities, will be adequate to meet our short-term liquidity requirements.

Our long-term liquidity uses generally consist of the retirement or refinancing of debt upon maturity (including mortgage debt, our revolving and construction credit facilities, term loans and other unsecured debt), funding of existing and new building development or land infrastructure projects and funding acquisitions of buildings and development land. Excluding recurring capital expenditures for leasing costs and tenant improvements and for normal building improvements, our expected future capital expenditures for started and/or committed new development projects were approximately $18.5 million as of June 30, 2009. Additionally, we may from time to time retire some or all of our remaining outstanding Preferred Stock and/or unsecured debt securities through redemptions, open market repurchases, privately negotiated acquisitions or otherwise.

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We expect to meet our liquidity needs through a combination of:

- available cash and cash equivalents;
- positive net cash flows from operating activities after payment of distributions and recurring capital expenditures;
- unsecured borrowings under our existing $450 million unsecured revolving credit facility or new financing arrangements that we may obtain;
- secured borrowings under existing construction facilities or new financing arrangements that we may obtain (as of June 30, 2009, we had approximately $2.4 billion of unencumbered real estate assets at undepreciated cost);
- the disposition of non-core assets;
- the issuance by the Operating Partnership of unsecured debt securities;
- the issuance of equity securities by the Company and the Operating Partnership; and
- the sale or contribution of some of our Wholly Owned Properties, development projects and development land to strategic joint ventures to be formed with unrelated investors, which would have the net effect of generating additional capital through such sale or contributions.

Financing Activity

In January 2009, we paid off at maturity $50.0 million of 8.125% unsecured notes using borrowings under our revolving credit facility.

In March 2009, we obtained a $20.0 million, three-year unsecured term loan with a bank lender. This loan bears interest at LIBOR plus 250 basis points, subject to a minimum total interest rate of 3.9%.

On June 1, 2009, the Company issued in a public offering approximately 7.0 million shares of Common Stock for net proceeds of $144.1 million. As required by the terms of the partnership agreement of the Operating Partnership, the net proceeds from the offering were contributed to the Operating Partnership in exchange for additional Common Units. The net impact of the offering and the redemptions discussed above was to increase the percentage of Common Units owned by the Company from 94.0% as of December 31, 2008 to 94.6% as of June 30, 2009. On June 1, 2009, we used a portion of the net proceeds of the offering to retire the remaining $107.2 million principal amount of a secured loan; we incurred no prepayment penalties. The remaining net proceeds from the offering were used to reduce the amount of borrowings outstanding under our revolving credit facility.

During the second quarter of 2009, we repurchased $3.2 million principal amount of 2017 bonds for a purchase price of 79% of par value.

Our existing revolving credit facility is scheduled to mature on May 1, 2010. We generally use our revolving credit facility for working capital purposes and for the short-term funding of our development and acquisition activity and, in certain instances, the repayment of other debt upon maturity. Continuing ability to borrow under the revolving credit facility allows us to quickly capitalize on accretive opportunities at short-term interest rates. If our lenders default under their obligations under the revolving credit facility or we become unable to borrow additional funds under the facility for any reason, we could be required to sell additional assets or seek alternative equity or debt capital, which could be more costly and adversely impact our financial condition. If such alternative capital were unavailable, we would not be able to make new investments and could have difficulty repaying other debt.

The interest rate under our revolving credit facility is LIBOR plus 80 basis points and the annual base facility fee is 20 basis points. The interest rate would increase to LIBOR plus 140 or 155 basis points if our credit rating were to fall below investment grade according to two of three credit rating agencies. As of June 30, 2009, $108.0 million of borrowings were outstanding under our revolving credit facility.

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We have $3.5 million of outstanding letters of credit as of June 30, 2009, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility as of June 30, 2009 was $338.5 million and, as of July 31, 2009, was $355.5 million.

We regularly evaluate the financial condition of the lenders that participate in our credit facilities using publicly available information, particularly in light of the current dislocations in the credit markets. Based on this review, we currently expect our lenders, which are major financial institutions, to perform their obligations under our existing facilities.

We expect to obtain a new revolving credit facility prior to the maturity of our existing revolving credit facility on May 1, 2010. Because of the prevalence of wider credit spreads and tighter underwriting standards due to the recent turbulence and uncertainty in the global capital markets, we expect the size, terms and conditions of any such new facility to be less favorable to us than our existing facility. These forward-looking statements are subject to risks and uncertainties. See Disclosure Regarding Forward-Looking Statements.

Our $70.0 million secured construction facility, which bears interest at LIBOR plus 85 basis points, is initially scheduled to mature on December 20, 2010. Assuming no defaults have occurred, we have options to extend the maturity date for two successive one-year periods. As of June 30, 2009, $41.7 million of borrowings were outstanding under the construction facility.

Subsequent to June 30, 2009, we expect to obtain a $115.0 million, six and a half-year secured loan that bears interest at 6.875 % and a $47.3 million, seven-year secured loan that bears interest at 7.5%. While both loans are subject to lender commitments, no assurances can be given that these transactions will close on the terms described above or at all. Assuming close of these transactions on the terms described above, we intend to use a portion of the proceeds to pay down the balance on our revolving credit facility to zero and invest the remainder in cash and cash equivalents.

Covenant Compliance

The Operating Partnership currently has $396.8 million principal amount of 2017 bonds outstanding and $200 million principal amount of 2018 bonds outstanding. The indenture that governs these outstanding notes requires us to comply with customary operating covenants and various financial ratios, including a requirement that we maintain unencumbered assets of at least 200% of all outstanding unsecured debt. The trustee or the holders of at least 25% in principal amount of either series of bonds can accelerate the principal amount of such series upon written notice of a default that remains uncured after 60 days.

Our existing revolving credit facility and our bank term loans also require us to comply with customary operating covenants and various financial requirements, including a requirement that we maintain a ratio of total liabilities to total asset value of no more than 60%. For purposes of our existing revolving credit facility, total asset value depends upon the effective economic capitalization rate (after deducting capital expenditures) used to determine the value of our buildings. Depending upon general economic conditions, the lenders have the good faith right to unilaterally increase the capitalization rate by up to 25 basis points once each calendar year. Any such increase in capitalization rates, without a corresponding reduction in total liabilities, could make it more difficult for us to maintain a ratio of total liabilities to total asset value of no more than 60%, which could have an adverse effect on our ability to borrow additional funds under our existing revolving credit facility. Upon an event of default, lenders having at least 66.7% of the total commitments under our existing revolving credit facility can accelerate all borrowings then outstanding and prohibit us from borrowing any further amounts under our existing revolving credit facility, which could adversely affect our ability to fund our operations.

We are currently in compliance with all such covenants and requirements. Although we expect to remain in compliance with these covenants and ratios through the end of 2009, depending upon our future operating performance, property and financing transactions and general economic conditions, we cannot assure you that we will continue to be in compliance.

Off Balance Sheet Arrangements

We have several off balance sheet joint venture and guarantee arrangements. The joint ventures were formed with unrelated investors to generate additional capital to fund property acquisitions, repay outstanding debt, fund other strategic initiatives and lessen the risks typically associated with owning 100% of a property. When we create a joint venture with a partner, we usually contribute cash or wholly owned assets to a newly formed entity in which we retain a noncontrolling interest. For financial reporting purposes, certain assets we sold have been accounted for as financing arrangements.

As discussed in Note 1 to our Consolidated Financial Statements, we generally account for our investments in less than majority owned joint ventures, partnerships and limited liability companies under the equity method of accounting. As a result, the assets and liabilities of these joint ventures are not included in our balance sheet and the results of operations of these joint ventures are not included in our income statement, other than as equity in earnings of unconsolidated affiliates. Generally, we are not liable for the debts of our joint ventures, except to the extent of our equity investment, unless we have directly guaranteed any of that debt. In most cases, we and/or our joint venture partners are required to agree to customary limited exceptions to non-recourse liability in non-recourse loans.

As of June 30, 2009, our unconsolidated joint ventures had $817.7 million of total assets and $640.2 million of total liabilities as reflected in their financial statements. As of June 30, 2009, our weighted average equity interest based on the total assets of these unconsolidated joint ventures was 37.0%. During the six months ended June 30, 2009, these unconsolidated joint ventures earned $7.4 million of total net income, of which our share, after appropriate purchase accounting and other adjustments, was $3.2 million.

As of June 30, 2009, our unconsolidated joint ventures had $604.4 million of outstanding mortgage debt. All of this joint venture debt is non-recourse to us except (1) in the case of customary exceptions pertaining to such matters as misuse of funds, environmental conditions and material misrepresentations and (2) those guarantees and loans described in Note 14 to the Consolidated Financial Statements in our 2008 Annual Report on Form 10-K.

Interest Rate Hedging Activities

To meet, in part, our liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility, construction facility and bank term loans bear interest at variable rates. Our long-term debt, which consists of secured and unsecured long-term financings and the issuance of unsecured debt securities, typically bears interest at fixed rates although some loans bear interest at variable rates. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time, we may enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes. The interest rate on all of our variable rate debt is adjusted at one and three month intervals, subject to settlements under these interest rate hedge contracts. We also enter into treasury lock agreements from time to time in order to limit our exposure to an increase in interest rates with respect to future debt offerings.

In prior periods, we entered into certain interest rate hedging arrangements which were designated and are being accounted for as cash flow hedges. The effective portion of these arrangements, representing deferred interest expense, was $0.9 million as of June 30, 2009 and is included in AOCL. This deferred expense will be recognized as an addition to interest expense in the same periods during which interest expense on the hedged financings affects net income. We expect approximately $0.2 million will be recognized as a decrease to interest expense within the next 12 months.

In January 2008, we entered into two floating-to-fixed interest rate swaps for a one-year period with respect to an aggregate of $50.0 million of borrowings outstanding under our revolving credit facility or other floating rate debt. These swaps fix the underlying LIBOR rate upon which interest on such borrowings is based at 3.26% for $30.0 million of borrowings and 3.24% for $20.0 million of borrowings. These swaps were designated and accounted for as cash flow hedges and matured in January 2009.

In April 2008, we entered into a floating-to-fixed interest rate swap for a two-year period with respect to an aggregate of $50.0 million of borrowings outstanding under our term loan or other floating rate debt. The swap fixes the underlying LIBOR rate upon which interest on such borrowings is based at 2.52%. The counterparty under this swap is Bank of America, N.A. The swap was designated and is being accounted for as a cash flow hedge. The effective portion of the swap representing deferred interest expense was $0.8 million as of June 30, 2009 and is

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included in AOCL. We expect all of the balance to be recognized as an increase to interest expense within the next ten months.

In October 2008, we entered into a floating-to-fixed interest rate swap for a one-year period with respect to an aggregate of $25.0 million of borrowings outstanding under our term loan or other floating rate debt. The swap fixes the underlying LIBOR rate upon which interest on such borrowings is based at 2.35%. The counterparty under this swap is PNC Bank, N.A. The swap was designated and is being accounted for as a cash flow hedge. The effective portion of the swap representing deferred interest expense was $0.2 million as of June 30, 2009 and is included in AOCL. We expect all of the balance to be recognized as an increase to interest expense within the next four months.

CRITICAL ACCOUNTING ESTIMATES

There were no changes made by management to the critical accounting policies in the six months ended June 30, 2009, except as set forth in Note 1 to the Consolidated Financial Statements under Basis of Presentation. For a description of our critical accounting estimates, see Management s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates in our 2008 Annual Report on Form 10-K.

FUNDS FROM OPERATIONS

The Company believes that FFO and FFO per share are beneficial to management and investors and are important indicators of the performance of any equity REIT. Because FFO and FFO per share calculations exclude such factors as depreciation and amortization of real estate assets and gains or losses from sales of operating real estate assets (which can vary among owners of identical assets in similar conditions based on historical cost accounting and useful life estimates), they facilitate comparisons of operating performance between periods and between other REITs. Management believes that historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, management believes that the use of FFO and FFO per share, together with the required GAAP presentations, provide a more complete understanding of the Company s performance relative to its competitors and a more informed and appropriate basis on which to make decisions involving operating, financing and investing activities.

FFO and FFO per share are non-GAAP financial measures and therefore do not represent net income or net income per share as defined by GAAP. Net income and net income per share as defined by GAAP are the most relevant measures in determining the Company s operating performance because FFO and FFO per share include adjustments that investors may deem subjective, such as adding back expenses such as depreciation and amortization. Furthermore, FFO per share does not depict the amount that accrues directly to the stockholders benefit. Accordingly, FFO and FFO per share should never be considered as alternatives to net income or net income per share as indicators of the Company s operating performance.

FFO as defined by the National Association of Real Estate Investment Trusts (NAREIT) is calculated as follows:

Net income (loss) computed in accordance with GAAP;

Less dividends to holders of Preferred Stock and less excess of Preferred Stock redemption cost over carrying value;

Less net income attributable to noncontrolling interests;

Plus depreciation and amortization of assets uniquely significant to the real estate industry;

Less gains, or plus losses, from sales of depreciable operating properties (but excluding impairment losses) and excluding items that are classified as extraordinary items under GAAP;

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Plus or minus adjustments for unconsolidated partnerships and joint ventures (to reflect funds from operations on the same basis); and

Plus or minus adjustments for depreciation and amortization and gains/(losses) on sales, related to discontinued operations.

In calculating FFO, the Company adds back net income attributable to noncontrolling interests in the Operating Partnership, which the Company believes is consistent with standard industry practice for REITs that operate through an UPREIT structure. The Company believes that it is important to present FFO on an as-converted basis since all of the Common Units not owned by the Company are redeemable on a one-for-one basis for shares of its Common Stock.

Other REITs may not define FFO in accordance with the current NAREIT definition or may interpret the current NAREIT definition differently than we do.

The Company s FFO and FFO per share are summarized in the following table ($ in thousands, except per share amounts):

	Three Months Ended June 30,				**Six Months Ended June 30,**			
	2009		**2008**		**2009**		**2008**	
	Amount	**Per Share**	**Amount**	**Per Share**	**Amount**	**Per Share**	**Amount**	**Per Share**
Funds from operations:								
Net income	$ 37,074		$ 16,013		$ 50,274		$ 32,747	
Net (income) attributable to noncontrolling interests in the Operating Partnership	(2,054)		(839)		(2,748)		(1,732)	
Net (income) attributable to noncontrolling interests in consolidated affiliates	(116)		(191)		(134)		(389)	
Dividends on preferred stock	(1,677)		(2,838)		(3,354)		(5,676)	
Net income available for common stockholders	33,227	$ 0.50	12,145	$ 0.21	44,038	$ 0.68	24,950	$ 0.43
Add/(Deduct):								
Depreciation and amortization of real estate assets	32,440	0.46	30,305	0.49	65,026	0.94	60,095	0.98
(Gains) on disposition of depreciable properties	(70)		(18)		(89)		(18)	
Noncontrolling interest in the Operating Partnership	2,054		839		2,748		1,732	
Unconsolidated affiliates:								
Depreciation and amortization of real estate assets	3,223	0.05	3,395	0.05	6,473	0.09	6,330	0.10
(Gains) on disposition of depreciable properties	(781)	(0.01)			(781)	(0.01)		

Discontinued operations:								
Depreciation and amortization of real estate assets	155		624	0.01	550	0.01	1,386	0.02
(Gains) on disposition of depreciable properties	(20,943)	(0.30)	(5,027)	(0.08)	(21,016)	(0.30)	(8,753)	(0.14)
Funds from operations	$ 49,305	$ 0.70	$ 42,263	$ 0.68	$ 96,949	$ 1.41	$ 85,722	$ 1.39
Weighted average shares outstanding (1) (2)	70,234		61,822		68,978		61,625	

(1) Includes assumed conversion of all potentially dilutive Common Stock equivalents.
(2) Weighted average shares outstanding as of June 30, 2008 have been revised from previously reported amounts to include our total number of restricted shares in accordance with FSP EITF 03-6-1.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information about our market risk as of December 31, 2008, see Quantitative and Qualitative Disclosures About Market Risk in our 2008 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

SEC rules require us to maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our annual and periodic reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. As defined in Rule 13a-15(e) under the Exchange Act, disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us is accumulated and communicated to management, including the Company s CEO and CFO, to allow timely decisions regarding required disclosure. The Company s CEO and CFO believe that our disclosure controls and procedures were effective at the end of the period covered by this Quarterly Report.

SEC rules also require us to establish and maintain internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepting accounting principles. As defined in Rule 13a-15(f) under the Exchange Act, internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepting accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

There were no changes in our internal control over financial reporting during the first six months of 2009 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the second quarter of 2009, the Company issued an aggregate of 8,291 shares of Common Stock to holders of Common Units in the Operating Partnership upon the redemption of a like number of Common Units in private offerings exempt from the registration requirements pursuant to Section 4(2) of the Securities Act. Each of the holders of Common Units was an accredited investor under Rule 501 of the Securities Act. The resale of such shares was registered by the Company under the Securities Act.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 13, 2009, we held our annual meeting of stockholders. The final vote of the matters presented for a vote at such meeting was as follows:

Matter		**For**	**Against**	**Abstain/ Withheld**			
(1)	Election of Directors:						
	Gene H. Anderson	56,498,374	920,561				
	David J. Hartzell	56,730,197	688,738				
	L. Glenn Orr, Jr.	56,502,280	916,654		158,536	53	1
	Communications & Networking	Warrant	0.17%	Preferred Series D	118,181	65	1

Total Stoke, Inc.					276,717	118	2
Subtotal: Communications & Networking (0.20%)*						994	1,314
Consumer & Business Products							
Intelligent Beauty, Inc.[15] 2301 Rosecrans Ave, Suite 4100 Manhattan Beach, CA 90245	Consumer & Business Products	Warrant	0.35%	Preferred Series B	190,234	230	708
IPA Holdings, LLC	Consumer & Business	Warrant	2.17%	Common Stock	650,000	275	517

1105 Satellite Blvd., Suite 300 Suwanee, GA 30024	Products						
Market Force Information, Inc. PO Box 270355 Louisville, CO 80027	Consumer & Business Products	Warrant	0.31%	Preferred Series A	99,286	24	30
Subtotal: Consumer & Business Products (0.08%)*						529	1,255
Diagnostic							
Navidea Biopharmaceuticals, Inc. (pka Neoprobe)(3)(15) 425 Metro Place North, Suite 300 Dublin, OH 43017-1367	Diagnostic	Warrant	0.22%	Common Stock	333,333	244	108
Subtotal: Diagnostic (0.02%)*						244	108
Drug Delivery							
AcelRx Pharmaceuticals, Inc.(3)(10)(15) 575 Chespeake Drive Redwood City, CA 94063	Drug Delivery	Warrant	0.41%	Common Stock	176,730	786	983
Alexza Pharmaceuticals, Inc.(3) 2091 Stierlin Court Mountain View, CA 94303	Drug Delivery	Warrant	0.22%	Common Stock	37,639	645	
BIND Therapeutics, Inc.(3)(15) 325 Vassar St Cambridge, MA 02139	Drug Delivery	Warrant	0.43%	Common Stock	71,359	366	141
Celsion Corporation(3) 997 Lenox Drive, Suite 100	Drug Delivery	Warrant	0.57%	Common Stock	97,493	227	210

Lawrenceville, NJ 08648							
Dance Biopharm, Inc.[15]	Drug Delivery	Warrant	0.39%	Preferred Series A	97,701	74	159
150 North Hill Drive, Suite 24							
Brisbane, CA 94005							

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Portfolio Company	Sub-Industry	Type of Investment[1]	Percentage Ownership	Series	Shares	Cost[2]	Value[3]
kaleo, Inc. 111 Virginia St, Ste 300 Richmond, VA 23219	Drug Delivery	Warrant	0.51%	Preferred Series B	82,500	$ 594	$ 1,062
Neos Therapeutics, Inc.[15] 2940 N. Highway 360 Suite 100 Grand Prarie, TX 75050	Drug Delivery	Warrant	0.29%	Preferred Series C	60,000	113	113
Revance Therapeutics, Inc.[3] 7555 Gateway Blvd Newark, CA 94560	Drug Delivery	Warrant	0.29%	Common Stock	53,511	557	477
Transcept Pharmaceuticals, Inc.[3] 1003 W. Cutting Blvd, Suite 110 Richmond, CA 94804	Drug Delivery	Warrant	0.33%	Common Stock	61,452	87	2
Subtotal: Drug Delivery (0.48%)*						3,449	3,147
Drug Discovery & Development							
Acceleron Pharma, Inc.[3][15] 128 Sidney Street Cambridge, MA 02139	Drug Discovery & Development	Warrant	0.04%	Common Stock	11,611	39	249
ADMA Biologics, Inc.[3] 465 Route 17 South Ramsey, NJ 07446	Drug Discovery & Development	Warrant	0.72%	Common Stock	66,550	218	170
Anthera Pharmaceuticals, Inc.[3][15] 25801 Industrial Blvd, Suite B Hayward, CA 94545	Drug Discovery & Development	Warrant	0.20%	Common Stock	40,178	984	4
Cempra, Inc.[3] Building Two Quadrangle, 6320 Quadrangle Drive, Suite 360 Chapel Hill, NC 27517	Drug Discovery & Development	Warrant	0.42%	Common Stock	138,797	458	604
Chroma Therapeutics, Ltd.[5][10] 93 Innovation Drive, Milton Park	Drug Discovery & Development	Warrant	0.61%	Preferred Series D	325,261	490	500

Abingdon Oxon, UK OX14 4RZ							
Cleveland BioLabs, Inc.[3]	Drug Discovery & Development	Warrant	0.31%	Common Stock	156,250	105	31
73 High Street							
Buffalo, NY 14203							
Concert Pharmaceuticals, Inc.[3]	Drug Discovery & Development	Warrant	0.40%	Common Stock	70,796	367	202
99 Hayden Avenue, Suite 100							
Lexington, MA 02421-7966							
Coronado Biosciences, Inc.[3]	Drug Discovery & Development	Warrant	0.16%	Common Stock	73,009	142	44
24 New England Executive Park, Suite 105							
Burlington, MA 01803							

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Portfolio Company	Sub-Industry	Type of Investment[1]	Percentage Ownership	Series	Shares	Cost[2]	Value[3]
Dicerna Pharmaceuticals, Inc.[3][15] 480 Arsenal Street, Building 1, Suite 120 Watertown, MA 02472	Drug Discovery & Development	Warrant	0.00%	Common Stock	200	$ 28	$
Horizon Pharma, Inc.[3] 520 Lake Cook Road, Suite 520 Deerfield, IL 60015	Drug Discovery & Development	Warrant	0.03%	Common Stock	22,408	231	46
uniQure B.V.[3][5][10] PO Box 22506 Amsterdam, Netherlands 1100 DA	Drug Discovery & Development	Warrant	0.21%	Common Stock	37,174	218	202
Subtotal: Drug Discovery & Development (0.31%)*						3,280	2,052
Electronics & Computer Hardware							
Clustrix, Inc. 201 Mission Street, Suite 800 San Francisco, CA 94105	Electronics & Computer Hardware	Warrant	0.32%	Common Stock	50,000	12	18
Identive Group, Inc.[3] 1900-B Carnegie Avenue, Building B Santa Ana, CA 92705	Electronics & Computer Hardware	Warrant	1.27%	Common Stock	992,084	247	467
Subtotal: Electronics & Computer Hardware (0.07%)*						259	485
Healthcare Services, Other							
MDEverywhere, Inc. 230 Third Avenue Waltham, MA 02451	Healthcare Services, Other	Warrant	0.45%	Common Stock	129	94	33
Subtotal: Healthcare Services, Other (0.01%)*						94	33
Information Services							
Cha Cha Search, Inc.[15] 14550 Clay Terrace Blvd., Suite 130 Carmel, IN 46032	Information Services	Warrant	0.21%	Preferred Series G	48,232	59	10
InXpo, Inc.[15]		Warrant	0.60%	Preferred Series C	648,400	98	30

770 N Halsted Street, Suite 6s	Information Services						
Chicago, IL 60642	Information Services	Warrant	0.54%	Preferred Series C-1	582,015	49	27
Total InXpo, Inc.					1,230,415	147	57
Jab Wireless, Inc.[15]	Information Services	Warrant	0.78%	Preferred Series A	266,567	265	282
400 Inverness Parkway, Suite 330							
Englewood, CO 80112							
RichRelevance, Inc.[15]	Information Services	Warrant	0.13%	Preferred Series E	112,612	98	
533 Folsom Street, 4th Floor							
San Francisco, CA 94107							
Subtotal: Information Services (0.16%)*						569	349

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Portfolio Company	Sub-Industry	Type of Investment[1]	Percentage Ownership	Series	Shares	Cost[2]	Value[3]
Internet Consumer & Business Services							
Blurb, Inc.[15] 580 California St, Suite 300 San Francisco, CA 94104	Internet Consumer & Business Services	Warrant	0.43%	Preferred Series B	218,684	$ 299	$ 108
	Internet Consumer & Business Services	Warrant	0.46%	Preferred Series C	234,280	636	183
Total Blurb, Inc.					452,964	935	291
CashStar, Inc.[15] 129 Middle Street, 2nd Floor Portland, ME 04101	Internet Consumer & Business Services	Warrant	0.56%	Preferred Series C-2	727,272	130	70
Gazelle, Inc.[15] 25 Thomson Place, 3rd floor Boston, MA 02210	Internet Consumer & Business Services	Warrant	0.80%	Preferred Series D	151,827	165	
Just Fabulous, Inc. 2301 Rosecrans Avenue, Fifth Floor El Segundo, CA 90245	Internet Consumer & Business Services	Warrant	0.32%	Preferred Series B	137,456	589	1,095
Prism Education Group, Inc.[15] 233 Needham Street, Suite 580 Newton, MA 02464	Internet Consumer & Business Services	Warrant	0.81%	Preferred Series B	200,000	43	
Progress Financial 171 Constitution Drive Menlo Park, CA 94025	Internet Consumer & Business Services	Warrant	0.08%	Preferred Series G	174,562	77	53
Reply! Inc. 12667 Alcosta Blvd., Suite 200 San Ramon, CA 94583	Internet Consumer & Business Services	Warrant	0.84%	Preferred Series B	137,225	320	144
ShareThis, Inc.[15] 4009 Miranda Avenue, Suite 200 Palo Alto, CA 94304-1227	Internet Consumer & Business Services	Warrant	0.96%	Preferred Series C	493,502	547	250
Tectura Corporation 4309 Hacienda Drive, Suite 550	Internet Consumer & Business Services	Warrant	0.22%	Preferred Series B-1	253,378	51	

Pleasanton, CA 94588							
WaveMarket, Inc.	Internet Consumer & Business Services	Warrant	0.34%	Preferred Series B-1	1,083,779	106	74
5858 Landregan Street							
Emeryville, CA 94608							
Subtotal: Internet Consumer & Business Services (0.30%)						2,963	1,977
Media/Content/Info							
Everyday Health, Inc. (pka Waterfront Media, Inc.)(3)	Media/Content/Info	Warrant	1.32%	Common Stock	73,345	60	500
345 Hudson Street, 16th Floor							
New York, NY 10014							

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Portfolio Company	Sub-Industry	Type of Investment[1]	Percentage Ownership	Series	Shares	Cost[2]	Value[3]
Glam Media, Inc.[15]	Media/Content/Info	Warrant	0.17%	Preferred Series D	407,457	$ 482	$
2000 Sierra Point Pkwy, Suite 1000							
Brisbane, CA 94005							
Rhapsody International Inc.[15]	Media/Content/Info	Warrant	0.58%	Common Stock	715,755	384	385
1420 Fifth Avenue Suite 1500							
Seattle, WA 98101							
Zoom Media and Marketing	Media/Content/Info	Warrant	0.46%	Preferred Series A	1,204	348	285
112 Madison Avenue 8th floor							
New York, NY 10016							
Subtotal: Media/Content/Info (0.18%)*						1,274	1,170
Medical Devices & Equipment							
Baxano Surgical, Inc.[3] 655 River Oaks Pkwy San Jose, CA 95134	Medical Devices & Equipment	Warrant	1.84%	Common Stock	882,353	440	319
Gelesis, Inc.[6][15] 500 Boylston Street, Suite 1600 Boston, MA 02116	Medical Devices & Equipment	Warrant	0.76%	LLC Interest	263,688	78	5
Home Dialysis Plus 257 Humboldt Ct. Sunnyvale, CA 94089	Medical Devices & Equipment	Warrant	0.57%	Preferred Series A	300,000	245	313
InspireMD, Inc.[3][5][10] 4 Menorat Hamaor Street Tel Aviv, Israel 67448	Medical Devices & Equipment	Warrant	0.49%	Common Stock	168,351	242	221
Medrobotics Corporation[15] 475 Paramount Drive Raynham, MA 02767	Medical Devices & Equipment	Warrant	0.59%	Preferred Series E	455,539	370	339
MELA Sciences, Inc.[3] 50 South Buckhout Street, Suite 1 Irvington, NY 10533	Medical Devices & Equipment	Warrant	1.33%	Common Stock	693,202	401	82
NetBio, Inc. 830 Winter Street Waltham, MA 02451	Medical Devices & Equipment	Warrant	0.86%	Common Stock	2,568	408	243
NinePoint Medical, Inc.[15] 1 Kendall Square, B7501 Cambridge, MA 02139	Medical Devices & Equipment	Warrant	0.55%	Preferred Series A-1	587,840	170	253
Novasys Medical, Inc.	Medical Devices & Equipment	Warrant	0.04%	Common Stock	109,449	2	
39684 Eureka Drive	Medical Devices & Equipment	Warrant	0.19%	Preferred Series D	526,840	125	
Newark, CA 94560	Medical Devices & Equipment	Warrant	0.02%	Preferred Series D-1	53,607	6	
Total Novasys Medical, Inc.					689,896	133	

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Portfolio Company	Sub-Industry	Type of Investment[1]	Percentage Ownership	Series	Shares	Cost[2]	Value[3]
Optiscan Biomedical, Corp.[6][15] 21021 Corsair Blvd. Hayward, CA 94545	Medical Devices & Equipment	Warrant	1.51%	Preferred Series D	10,535,275	$ 1,252	$ 235
Oraya Therapeutics, Inc.	Medical Devices & Equipment	Warrant	0.12%	Common Stock	95,498	66	
8000 Jarvis Ave	Medical Devices & Equipment	Warrant	0.92%	Preferred Series C-1	716,948	676	
Newark, CA 94560							
Total Oraya Therapeutics, Inc.					812,446	742	
SonaCare Medical, LLC (pka US HIFUM LLC) 801 E. Morehead St., Suite 201 Charlotte, NC 28202	Medical Devices & Equipment	Warrant	0.57%	Preferred Series A	409,704	188	214
United Orthopedic Group, Inc. 5796 Armada Dr Carlsbad, CA 92008	Medical Devices & Equipment	Warrant	2.10%	Preferred Series A	423,076	608	820
ViewRay, Inc.[15] 2 Thermo Fisher Way Oakwood Village, OH 44146	Medical Devices & Equipment	Warrant	0.45%	Preferred Series C	312,500	333	340
Subtotal: Medical Devices & Equipment (0.52%)*						5,610	3,384
Semiconductors							
Achronix Semiconductor Corporation 2953 Bunker Hill Lane, Suite 101 Santa Clara, CA 95054	Semiconductors	Warrant	0.48%	Preferred Series C	360,000	160	189
Avnera Corporation 12730 High Bluff Drive Suite 160 San Diego, CA 92130	Semiconductors	Warrant	0.21%	Preferred Series E	102,958	14	14
SiTime Corporation[15] 990 Almanor Avenue Sunnyvale, CA 94085	Semiconductors	Warrant	0.10%	Preferred Series G	195,683	23	7
Subtotal: Semiconductors (0.03%)*						197	210
Software							
Atrenta, Inc. 2077 Gateway Place, Suite 300 San Jose, CA 95110	Software	Warrant	0.29%	Preferred Series D	392,670	121	361
Braxton Technologies, LLC 6 North Tejon Street, Suite 220 Colorado Springs, CO 80903	Software	Warrant	0.63%	Preferred Series A	168,750	188	
Central Desktop, Inc.[15] 129 N Hill Ave #202 Pasadena, CA 91106	Software	Warrant	1.79%	Preferred Series B	522,769	108	289

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Portfolio Company	Sub-Industry	Type of Investment[1]	Percentage Ownership	Series	Shares	Cost[2]	Value[3]
Clickfox, Inc.[15]	Software	Warrant	1.48%	Preferred Series B	1,038,563	$ 329	$ 523
	Software	Warrant	0.84%	Preferred Series C	592,019	730	380
3445 Peachtree Road, Suite 450							
Atlanta, GA 30326							
Total Clickfox, Inc.					1,630,582	1,059	903
Daegis Inc. (pka Unify Corporation)[3][15]	Software	Warrant	4.39%	Common Stock	718,860	1,434	99
600 E. Las Colinas Blvd, Suite 1500							
Irving, TX 75039							
ForeScout Technologies, Inc.	Software	Warrant	0.16%	Preferred Series E	80,587	41	116
900 E. Hamilton Avenue, Suite 300							
Campbell, CA 95008							
Hillcrest Laboratories, Inc.[15]	Software	Warrant	0.70%	Preferred Series E	1,865,650	55	153
15245 Shady Grove Road, Suite 400							
Rockville, MD 20850							
Knowledge Adventure, Inc.[15]	Software	Warrant	0.43%	Preferred Series E	550,781	15	15
2377 Crenshaw Blvd Suite 302							
Torrance, CA 90501							
Mobile Posse, Inc.[15]	Software	Warrant	1.15%	Preferred Series C	396,430	129	118
1320 Old Chain Bridge Rd, Suite 240							
McLean, VA 22101							
Neos Geosolutions, Inc.[15]	Software	Warrant	0.23%	Preferred Series 3	221,150	22	
6210 Stoneridge Mall , Suite 450							
Pleasanton, CA 94588							
Sonian, Inc.[15]	Software	Warrant	0.54%	Preferred Series C	185,949	106	83
100 Crescent Road							
Needham, MA 02494							
SugarSync, Inc.[15]	Software	Warrant	0.41%	Preferred Series CC	332,726	78	101
1810 Gateway Drive, Suite 200	Software	Warrant	0.13%	Preferred Series DD	107,526	34	34
San Mateo, CA 94404							
Total SugarSync, Inc.					440,252	112	135
Touchcommerce, Inc.[15]	Software	Warrant	0.68%	Preferred Series E	992,595	252	187
30504 Agoura Road							
Agoura Hills, CA 91301							
White Sky, Inc.[15]	Software	Warrant	0.34%	Preferred Series B-2	124,295	54	1
526 Clyde Avenue							
Mountain View, CA 94043							

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Portfolio Company	Sub-Industry	Type of Investment(1)	Percentage Ownership	Series	Shares	Cost(2)	Value(3)
WildTangent, Inc.(15) 18578 NE 67th Court, Building 5 Redmond, WA 98052	Software	Warrant	0.17%	Preferred Series 3	100,000	$ 238	$ 61
Subtotal: Software (0.39%)*						3,934	2,521
Specialty Pharmaceuticals							
QuatRx Pharmaceuticals Company 777 East Eisenhower Parkway, Suite 100 Ann Arbor, MI 48108	Specialty Pharmaceuticals	Warrant	0.15%	Preferred Series	155,324	307	
Subtotal: Specialty Pharmaceuticals (0.00%)*						307	
Surgical Devices							
Gynesonics, Inc.(15)	Surgical Devices	Warrant	0.13%	Preferred Series C	180,480	75	29
604 5th Ave, Suite D Redwood City, CA 94063	Surgical Devices	Warrant	1.12%	Preferred Series D	1,575,965	320	406
Total Gynesonics, Inc.					1,756,445	395	435
Transmedics, Inc.	Surgical Devices	Warrant	0.11%	Preferred Series B	40,436	225	7
200 Minuteman Road, Suite 302 Andover, MA 01810	Surgical Devices	Warrant	0.47%	Preferred Series D	175,000	100	340
Total Transmedics, Inc.					215,436	325	347
Subtotal: Surgical Devices (0.12%)*						720	782
Total Warrant (3.60%)*						31,895	23,614
Total Investments (136.32%)*						887,628	890,662

* Value as a percent of net assets

(1) Preferred and common stock, warrants, and equity interests are generally non-income producing.

(2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled $47.2 million, $45.8 million and $1.4 million respectively. The tax cost of investments is $885.7 million.

(3) Except for warrants in twenty-four publicly traded companies and common stock in ten publicly traded companies, all investments are restricted at March 31, 2014 and were valued at fair value as determined in good faith by the Valuation Committee of the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

(4) Debt investments of this portfolio company have been pledged as collateral under the Wells Facility.

(5) Non-U.S. company or the company s principal place of business is outside the United States.

(6) Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 5% but not more than 25% of the voting securities of the company.

(7) Control investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 25% of the voting securities of the company or has greater than 50% representation on its board.

(8) Debt is on non-accrual status at March 31, 2014, and is therefore considered non-income producing.

(9) Denotes that all or a portion of the debt investment is convertible senior debt.

(10) Indicates assets that the Company deems not qualifying assets under section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company s total assets at the time of acquisition of any additional non-qualifying assets.

(11) Denotes that all or a portion of the debt investment secures the notes offered in the Debt Securitization (as defined in Note 4).
(12) Subsequent to March 31, 2014, this company completed a reverse merger. Note that the March 31, 2014 fair value does not reflect any potential impact of the conversion of our preferred shares to the new entity.
(13) Denotes that all or a portion of the debt investment principal includes accumulated PIK, or paid-in-kind, interest and is net of repayments.
(14) Denotes that all or a portion of the debt investment includes an exit fee receivable.
(15) Denotes that all or a portion of the investment in this portfolio company is held by HT II or HT III, the Company s wholly-owned SBIC subsidiaries.

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SENIOR SECURITIES

Information about our senior securities is shown in the following table for the periods as of December 31, 2013, 2012, 2011, 2010, 2009, 2008, 2007, 2006, 2005 and 2004 and as of March 31, 2014. The information as of December 31, 2009 has been derived from our audited financial statements as of and for the period ended December 31, 2009, which has been audited by Ernst & Young LLP, our former independent registered public accounting firm. The information as of December 31, 2013, 2012, 2011 and 2010 has been derived from our audited financial statements for these periods, which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. The supplementary report of Ernst & Young LLP on the senior securities information as of December 31, 2009 is attached as an exhibit to the registration statement of which this prospectus is a part. The report of PricewaterhouseCoopers LLP on the senior securities table as of December 31, 2013 is attached as an exhibit to the registration statement of which this prospectus is a part. The indicates information that the SEC expressly does not require to be disclosed for certain types of senior securities.

Class and Year	Total Amount Outstanding Exclusive of Treasury Securities[1]	Asset Coverage per Unit[2]	Average Market Value per Unit
Bridge Loan Credit Facility with Alcmene Funding L.L.C.[3]			
31-Dec-04			N/A
December 31, 2005	$ 25,000,000	$ 2,505	N/A
December 31, 2006			N/A
December 31, 2007			N/A
December 31, 2008			N/A
December 31, 2009			N/A
December 31, 2010			N/A
December 31, 2011			N/A
December 31, 2012			N/A
December 31, 2013			N/A
December 31, 2014 (as of March 31, 2014, unaudited)			N/A
Securitized Credit Facility with Wells Fargo Capital Finance[3]			
December 31, 2004			N/A
December 31, 2005	$ 51,000,000	$ 2,505	N/A
December 31, 2006	$ 41,000,000	$ 7,230	N/A
December 31, 2007	$ 79,200,000	$ 6,755	N/A
December 31, 2008	$ 89,582,000	$ 6,689	N/A
December 31, 2009[6]			N/A
December 31, 2010[6]			N/A
December 31, 2011	$ 10,186,830	$ 73,369	N/A
December 31, 2012			N/A
December 31, 2013			N/A
December 31, 2014 (as of March 31, 2014, unaudited)			N/A
Securitized Credit Facility with Union Bank, NA[3]			
December 31, 2004			N/A
December 31, 2005			N/A
December 31, 2006			N/A
December 31, 2007			N/A
December 31, 2008			N/A
December 31, 2009[6]			N/A
December 31, 2010[6]			N/A
December 31, 2011[6]			N/A
December 31, 2012			N/A
December 31, 2013			N/A
December 31, 2014 (as of March 31, 2014, unaudited)			N/A

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Class and Year	Total Amount Outstanding Exclusive of Treasury Securities(1)	Asset Coverage per Unit(2)	Average Market Value per Unit
Small Business Administration Debentures (HT II)(3)(4)			
December 31, 2004			N/A
December 31, 2005			N/A
December 31, 2006			N/A
December 31, 2007	$ 55,050,000	$ 9,718	N/A
December 31, 2008	$ 127,200,000	$ 4,711	N/A
December 31, 2009	$ 130,600,000	$ 3,806	N/A
December 31, 2010	$ 150,000,000	$ 3,942	N/A
December 31, 2011	$ 125,000,000	$ 5,979	N/A
December 31, 2012	$ 76,000,000	$ 14,786	N/A
December 31, 2013	$ 76,000,000	$ 16,075	N/A
December 31, 2014 (as of March 31, 2014, unaudited)	$ 41,200,000	$ 28,141	N/A
Small Business Administration Debentures (HT III)(3)(5)			
December 31, 2004			N/A
December 31, 2005			N/A
December 31, 2006			N/A
December 31, 2007			N/A
December 31, 2008			N/A
December 31, 2009			N/A
December 31, 2010	$ 20,000,000	$ 29,564	N/A
December 31, 2011	$ 100,000,000	$ 7,474	N/A
December 31, 2012	$ 149,000,000	$ 7,542	N/A
December 31, 2013	$ 149,000,000	$ 8,199	N/A
December 31, 2014 (as of March 31, 2014, unaudited)	$ 149,000,000	$ 7,781	N/A
Senior Convertible Notes			
December 31, 2011	$ 70,352,983	$ 10,623	$ 885
December 31, 2012	$ 71,435,783	$ 15,731	$ 1,038
December 31, 2013	$ 72,518,583	$ 16,847	$ 1,403
December 31, 2014 (as of March 31, 2014, unaudited)	$ 72,789,283	$ 15,928	$ 1,213
April 2019 Notes Payable			
December 31, 2012	$ 84,489,500	$ 13,300	$ 986
December 31, 2013	$ 84,489,500	$ 14,460	$ 1,021
December 31, 2014 (as of March 31, 2014, unaudited)	$ 84,489,500	$ 13,722	$ 1,035
September 2019 Notes Payable			
December 31, 2012	$ 85,875,000	$ 13,086	$ 1,003
December 31, 2013	$ 85,875,000	$ 14,227	$ 1,016
December 31, 2014 (as of March 31, 2014, unaudited)	$ 85,875,000	$ 13,501	$ 1,030
Asset-Backed Notes			
December 31, 2012	$ 129,300,000	$ 8,691	$ 1,000
December 31, 2013	$ 89,556,972	$ 13,642	$ 1,004
December 31, 2014 (as of March 31, 2014, unaudited)	$ 63,781,949	$ 18,178	$ 1,003

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by $1,000 to determine the Asset Coverage per Unit.

(3) Not applicable because senior securities are not registered for public trading.

(4) Issued by HT II, one of our SBIC subsidiaries, to the SBA. These categories of senior securities were not subject to the asset coverage requirements of the 1940 Act as a result of exemptive relief granted to us by the SEC.

(5) Issued by HT III, one of our SBIC subsidiaries, to the SBA. These categories of senior securities were not subject to the asset coverage requirements of the 1940 Act as a result of exemptive relief granted to us by the SEC.

(6) The Company s Wells Facility and Union Bank Facility had no borrowings outstanding during the periods noted above.

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MANAGEMENT

Our business and affairs are managed under the direction of our Board of Directors. Our Board of Directors elects our officers who serve at the discretion of the Board of Directors. Our Board of Directors currently consists of four members, one who is an interested person of Hercules Technology Growth Capital as defined in Section 2(a)(19) of the 1940 Act and three who are not interested persons and who we refer to as our independent directors.

Directors, Executive Officers and Key Employees

Our executive officers, directors and key employees and their positions are set forth below. The address for each executive officer, director and key employee is c/o Hercules Technology Growth Capital, Inc., 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301.

Name	Age	Positions
Interested Director:		
Manuel A. Henriquez[(1)]	50	Chairman of the Board of Directors, President and Chief Executive Officer
Independent Directors:		
Robert P. Badavas	61	Director
Joseph W. Chow[(2)]	61	Director
Allyn C. Woodward, Jr.	73	Director
Executive Officers:		
Jessica Baron	39	Vice President of Finance and Chief Financial Officer
Scott Bluestein	36	Chief Investment Officer
Michael Penney	37	General Counsel, Chief Compliance Officer and Secretary
Parag I. Shah	42	Senior Managing Director and Life Sciences Group Head

(1) Mr. Henriquez is an interested person, as defined in section 2(a)(19) of the 1940 Act, of the Company due to his position as an executive officer of the Company.
(2) Mr. Chow has notified the board that he will not stand for re-election at our 2014 annual meeting of shareholders.

Set forth below is information regarding our current directors, including each director s (i) name and age; (ii) a brief description of their recent business experience, including present occupations and employment during at least the past five years; (iii) directorships, if any, that each director holds and has held during the past five years; and (iv) the year in which each person became a director of the Company. As the information that follows indicates, the nominee and each continuing director brings strong and unique experience, qualifications, attributes, and skills to the Board. This provides the Board, collectively, with competence, experience, and perspective in a variety of areas, including: (i) corporate governance and Board service; (ii) executive management, finance, and accounting; (iii) venture capital financing with a technology-related focus; (iv) business acumen; and (v) an ability to exercise sound judgment.

Moreover, the nominating and corporate governance committee believes that it is important to seek a broad diversity of experience, professions, skills, geographic representation and backgrounds. The nominating and corporate governance committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. We believe that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities. Our Board does not have a specific diversity policy, but considers diversity of race, religion, national origin, gender, sexual orientation, disability, cultural background and professional experiences in evaluating candidates for Board membership.

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Interested Directors

Mr. Henriquez is an interested director because he is our Chairman and Chief Executive Officer.

Manuel A. Henriquez is a co-founder of Hercules and has been our Chairman and Chief Executive Officer since 2004 and our President since 2005. Prior to co-founding Hercules, Mr. Henriquez was a partner at VantagePoint Venture Partners, a $2.5 billion multi-stage technology venture fund, from August 2000 through July 2003. Prior to VantagePoint Venture Partners, Mr. Henriquez was the President and Chief Investment Officer of Comdisco Ventures, a division of Comdisco, Inc., a leading technology and financial services company, from November 1999 to March 2000. Prior to that, from March 1997 to November 1999, Mr. Henriquez was a Managing Director of Comdisco Ventures. Mr. Henriquez was a senior member of the investment team at Comdisco Ventures that originated over $2.0 billion of equipment lease, debt and equity transactions from 1997 to 2000. Mr. Henriquez serves on the board of directors of Northeastern University, a global, experiential research university, the Lucile Packard Foundation for Children s Health, the sole fundraising entity for Lucile Packard Children s Hospital and the child health programs at Stanford University School of Medicine, as well as the Children s Health Council, a diagnostic and treatment center for children and adolescents facing developmental and behavioral challenges. Mr. Henriquez received a B.S. in Business Administration from Northeastern University.

Through his broad experience as an officer and director of several private and public companies, in addition to skills acquired with firms engaged in investment banking, banking and financial services, Mr. Henriquez brings to the Company a unique business expertise and knowledge of financing technology related companies as well as extensive financial and risk assessment abilities. Mr. Henriquez possesses a vast array of knowledge in venture capital financing which assists us in the markets in which we compete. Mr. Henriquez s years of experience as our Chairman and Chief Executive Officer since co-founding the Company demonstrate his leadership skills that are valuable in his role as our Chairman and Chief Executive Officer.

Independent Directors

The following directors are independent under the NYSE rules and each of the following directors is not an interested person as defined in Section 2(a)(19) of the 1940 Act.

Robert P. Badavas has served as a director since March 2006. Since January 2012, Mr. Badavas has served as President and Chief Executive Officer of PlumChoice, Inc. a venture backed technology, software and services company. Mr. Badavas also has served on the board of directors of PlumChoice since November 2010. Previously, Mr. Badavas served as President of Petros Ventures, Inc., a management and advisory services firm. Mr. Badavas was President and Chief Executive Officer of TAC Worldwide, a multi-national technical workforce management and business services company, from December 2005 through October 2009, and was Executive Vice President and Chief Financial Officer of TAC Worldwide from November 2003 to December 2005. Prior to joining TAC Worldwide, Mr. Badavas was a Partner and Chief Operating Officer of Atlas Venture, an international venture capital firm, from September 2001 to September 2003 and Chief Executive Officer at Cerulean Technology, Inc., a venture capital backed wireless application software company. Since May 2007, Mr. Badavas has served on the board of directors and is chairman of the Audit Committee of Constant Contact, Inc. (NASDAQ: CTCT), a provider of email and other engagement marketing products and services for small and medium sized organizations. In addition, Mr. Badavas serves as Vice-Chairman of the board of trustees of Bentley University in Waltham, MA. Mr. Badavas also serves on the board of Hellenic College/Holy Cross School of Theology in Brookline, MA where he serves on the Executive Committee of the board as its Treasurer and Chair of the Real Estate and Investment Committees. Mr. Badavas is Chairman Emeritus of The Learning Center for the Deaf in Framingham, MA and currently serves on the board s Advancement and Finance Committees. Mr. Badavas is a certified public accountant with nine years of experience at PricewaterhouseCoopers LLP, an independent registered public accounting firm. Also,

Mr. Badavas has completed a program that studied strategies to make corporate boards more effective at the

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Harvard Business School. Mr. Badavas is active in board of director organizations and regularly attends professional seminars addressing issues of current import to boards of directors. Mr. Badavas is a magna cum laude graduate of Bentley University with a B.S. in Accounting and Finance.

Through his prior experience as a director, chief executive officer, chief operating officer and chief financial officer, Mr. Badavas brings business expertise, executive leadership experience, finance, and audit skills to his Board service with the Company. Mr. Badavas expertise, experience and skills closely align with our operations, and his prior investment experience with venture capital firms and technology companies facilitates an in-depth understanding of our investment business. Mr. Badavas expertise and experience also qualify him to serve as Chairman of our Audit Committee and as our audit committee financial expert.

Joseph W. Chow has served as a director since February 2004. Mr. Chow has notified the board that he will not stand for re-election at our 2014 annual meeting of shareholders. Mr. Chow retired in March 2011 as Executive Vice President at State Street Corporation (NYSE: STT), a leading global provider of asset servicing and investment management services to institutional investors, where he was responsible for the development of business strategies for emerging economies. He served on the company s Asia Pacific and European Executive Boards, as a board director of State Street s Technology Center in China, and chaired State Street s Corporate Environmental Sustainability Committee. Previously, having retired from State Street in 2003 and returned in 2004, he assumed the role of Executive Vice President and Chief Risk and Corporate Administration Officer responsible for Enterprise Risk Management, Compliance, Regulatory Affairs, Basel Capital Accord Implementation, and Community Affairs; he was a member of the Operating Group, the company s most senior 11-member strategy and policy management committee. Prior to 2003, Mr. Chow was State Street s Executive Vice President and Head of Credit and Risk Policy responsible for corporate-wide risk management, focusing on credit, market, operational, fiduciary, and compliance risks. He chaired the company s Major Risk Committee, Fiduciary Review Committee, and Securities Finance Risk Management Committee and served as a member of the Asset Liability Management Committee and Financial Policy Committee. Before joining State Street, Mr. Chow worked at Bank of Boston in various international and corporate banking roles from 1981 to 1990 and specialized in the financing of emerging-stage high technology companies. Mr. Chow is a board trustee/director, and serves on the audit and investment committees of the Delaware Investments Family of Funds, a trustee of the Boston Children s Museum and is a director of the Hong Kong Association of Massachusetts. He served on the board of directors of China Universal Asset Management, Inc. in Shanghai, the Greater Boston Chamber of Commerce, and the Asian Community Development Corporation, a not-for-profit community development corporation focused on building affordable housing in Boston. Mr. Chow is a graduate of Brandeis University with a B.A. in Economics. He also received a Master in City Planning from the Massachusetts Institute of Technology and an M.S. in Management (Finance) from the MIT Sloan School of Management.

Through his experience as a senior executive of a major financial institution, Mr. Chow brings business expertise, finance and risk assessment skills to his Board service with the Company. Mr. Chow s experience and skills closely align with our business, and his lending and credit experience facilitates an in-depth understanding of risk associated with the structuring of investments in technology related companies. Mr. Chow s risk management expertise and credit related experience also qualify him to serve as Chairman of our Valuation Committee.

Allyn C. Woodward, Jr. has served as a director since February 2004. Mr. Woodward was Vice Chairman of Adams Harkness Financial Group (AHFG-formerly Adams, Harkness & Hill) from April 2001 until January 2006 when AHFG was sold to Canaccord, Inc., an independent investment dealer. He previously served as President of AHFG from 1995 to 2001. AHFG was an independent institutional research, brokerage and investment banking firm headquartered in Boston, MA. Prior to joining AHFG, Mr. Woodward worked for Silicon Valley Bank from April 1990 to April 1995, initially as Executive Vice President and Co-founder of the Wellesley, MA office and subsequently as Senior Executive Vice President and Chief Operating Officer of the parent bank in California. Silicon Valley Bank is a commercial bank, headquartered in Santa Clara, CA whose principal lending focus is directed toward the technology, healthcare and venture capital industries. Prior to

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joining Silicon Valley Bank, Mr. Woodward was Senior Vice President and Group Manager of the Technology group at Bank of New England, Boston, MA where he was employed from 1963-1990. He is also a former director and chairman of Lecroy Corporation which was sold in August, 2012 and a former director of Viewlogic Systems, Inc. and Cayenne Software, Inc. Mr. Woodward serves on the boards of three private companies and is on the boards of advisors of five venture capital funds. Mr. Woodward holds an Executive Masters Professional Director Certification, their highest level award, from the American College of Corporate Directors, a public company director education and credentialing organization, is a member of the Board Leaders Group, and is a member of the National Association of Corporate Directors. Mr. Woodward is on the Board of Overseers and a member of the Finance Committee of Newton Wellesley Hospital, a 250 bed hospital located in Newton, MA. Mr. Woodward is a member of the Investment Committee, the Finance Committee and the Private Equity Committee of Babson College in Babson Park, MA. Mr. Woodward graduated from Babson College with a degree in finance and accounting. He also graduated from the Stonier Graduate School of Banking at Rutgers University.

Mr. Woodward s executive and board experience brings extensive business, finance and investment expertise to his Board service with the Company. His experiences with financial services, bank and technology-related companies provide a unique perspective on matters involving business, finance and technology. Mr. Woodward s many board related experiences makes him skilled in leading committees requiring substantive expertise. He is uniquely qualified to lead in the continued development of our Board s policies regarding compensation and governance best practices by serving as Chairman of our Compensation Committee and Nominating and Corporate Governance Committee and by serving as our Lead Independent Director.

Information about Executive Officers who are not Directors

The following information, as of May 14, 2014, pertains to our executive officers who are not directors of the Company.

Jessica Baron joined Hercules in October 2006 as Corporate Controller and was promoted to Vice President of Finance in October 2010. Effective June 1, 2011, our board appointed Ms. Baron as Interim Chief Financial Officer and our board confirmed her appointment as the our permanent Chief Financial Officer on March 27, 2012. During her tenure at Hercules, Ms. Baron has been involved in financial reporting, financial process and systems design and implementation. Prior to joining Hercules, Ms. Baron served in strategic finance roles at Cisco Systems, Inc. from 2004 to 2006 and at Levi Strauss and Company from 2002 to 2004. Ms. Baron also served as a finance and accounting manager at Dominion Ventures and Dominion Capital Management from 2000 to 2002. She also was at PricewaterhouseCoopers LLP in supervisory roles in both its consulting and business assurance divisions from 1997 to 2000. Ms. Baron earned a Bachelor of Arts degree in Human Biology and a Master of Arts degree in Sociology from Stanford University and a Master of Business Administration degree with an emphasis in Finance from the University of California, Berkeley, Haas School of Business. She is a Certified Public Accountant in the state of California.

Parag Shah joined Hercules in November 2004 as Managing Director of Life Sciences and was promoted to Senior Managing Director in June 2006. During March 2008 Mr. Shah was promoted by our board to the position of Life Science Group Head. Prior to joining Hercules, Mr. Shah served as Managing Director for Biogenesys Capital from April 2004 to November 2004. From April 2000 to April 2004, Mr. Shah was employed by Imperial Bank, where he served as a Senior Vice President and East Coast Life Sciences Group Head in Imperial Bank s Technology and Life Sciences Division, beginning in October 2000, which was acquired by Comerica Bank in early 2001. Prior to working at Comerica Bank, Mr. Shah was an Assistant Vice President at Bank Boston from January 1997 to March 2000. Bank Boston was acquired by Fleet Bank in 1999. Mr. Shah completed his Masters degrees in Technology, Management and Policy as well as his Bachelor s degree in Molecular Biology at the Massachusetts Institute of Technology, or MIT. During his tenure at MIT, Mr. Shah conducted research at the Whitehead Institute for Biomedical Research and was chosen to serve on the Whitehead Institute s Board of Associates in 2003.

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Scott Bluestein joined Hercules in November 2010 as Chief Credit Officer, and he was promoted to Chief Investment Officer in April 2014. Mr. Bluestein previously served as founder and partner of Century Tree Capital Management from February 2009 until June 2010. Prior to that, he was managing director at Laurus-Valens Capital Management, a New York based investment firm specializing in providing financing to small and micro cap growth oriented businesses through a combination of secured debt and equity securities, including new investments, portfolio management, and restructurings from June 2003 until February 2010. Previously, Mr. Bluestein worked at UBS Investment Bank, where he was a member of their Financial Institutions Coverage Group focused on the Financial Technology space. Mr. Bluestein received his B.B.A. from Emory University.

Michael Penney joined Hercules in 2013 as General Counsel, Chief Compliance Officer and Secretary. Prior to joining Hercules, he served as Vice President and Senior Counsel for State Street Bank and Trust Company, where he was responsible for domestic and cross-border M&A and joint venture transactions, public offerings and general corporate and SEC matters from 2009 to 2013. From 2004 to 2009, Mr. Penney was a corporate associate with Wilmer Cutler Pickering Hale and Dorr LLP. Mr. Penney earned his J.D. from Boston College, and he received a B.A. in political science and economics from the University of Nebraska.

Board of Directors

The number of directors is currently fixed at four directors. However, our board has reduced the size of the board to three directors effective upon the expiration of Mr. Chow s term immediately prior to our 2014 annual meeting.

Our Board of Directors is divided into three classes. Class I directors hold office for a term expiring at the annual meeting of stockholders to be held in 2014, Class II directors hold office for a term expiring at the annual meeting of stockholders to be held in 2015 and Class III directors hold office for a term expiring at the annual meeting of stockholders to be held in 2016. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualifies. Mr. Woodward s term expires in 2015, Mr. Henriquez s term expires in 2016 and Messrs. Badavas and Chow s terms expire in 2014. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election and until their successors are duly elected and qualify.

Compensation of Directors

The Compensation Committee has the authority from the Board for the appointment, compensation and oversight of the Company s outside compensation consultant. The Compensation Committee generally engages a compensation consultant every other year to assist the Compensation Committee with its responsibilities related to the Company s director compensation program.

Compensation of Directors

Our Compensation Committee has the authority from our Board for the appointment, compensation and oversight of our outside compensation consultant. Our Compensation Committee generally engages a compensation consultant every other year to assist it with its responsibilities related to our director compensation program.

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The following table discloses the cash, equity awards and other compensation earned, paid or awarded, as the case may be, to each of our directors during the fiscal year ended December 31, 2013.

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)	Option Awards ($)	All Other Compensation ($)(2)	Total ($)
Robert P. Badavas	$ 167,000			$ 2,716	$ 169,716
Joseph W. Chow	$ 169,000			$ 2,716	$ 171,716
Allyn C. Woodward, Jr.	$ 184,000			$ 4,566	$ 188,566
Manuel A. Henriquez(3)					

(1) Messrs. Badavas, Chow and Woodward earned $117,000, $119,000 and $134,000, respectively, and each elected to receive an additional retainer fee of 3,445 shares of our common stock in lieu of cash. The total value of the shares issued to each of Mr. Badavas, Mr. Chow and Mr. Woodward for services in fiscal 2013 was $50,000.
(2) Represents dividends paid on unvested restricted stock awards during 2013.
(3) As an employee director, Mr. Henriquez does not receive any compensation for his service as a director. The compensation Mr. Henriquez receives as our chief executive officer is disclosed in the Summary Compensation Table.

As of December 31, 2013, Messrs. Badavas, Chow and Woodward had outstanding options in the amount of 5,000, 5,000 and 10,000, respectively. As of December 31, 2013, Messrs. Badavas, Chow and Woodward held unvested shares of restricted stock in the amount of 1,666, 1,666 and 3,333, respectively.

As compensation for serving on our Board, each of our independent directors receives an annual fee of $50,000 and the chairperson of each committee receives an additional $15,000 annual fee. Each independent director also receives $2,000 for each board or committee meeting they attend, whether in person or telephonically. In 2013, we granted each independent director an additional retainer of $50,000, which was distributed as shares of common stock in lieu of cash. In addition, upon re-election to the board of directors, each independent director is granted an option to purchase 15,000 shares and an additional award of 5,000 shares of restricted stock; however, no such options or awards were granted in 2013 because the director re-elected to our board, Manuel Henriquez, is an interested, employee director and is not eligible to receive such a grant. Employee directors and non-independent directors do not receive compensation for serving on our board. In addition, we reimburse our directors for their reasonable out-of-pocket expenses incurred in attending board meetings.

Directors do not receive any perquisites or other personal benefits from the Company.

Our Board has implemented caps on the total annual compensation payable to our non-employee directors. Pursuant to the caps approved by our Board, the total annual compensation payable to each director (other than the director serving as chair of our audit committee) will be limited to $175,000 per year. The total annual compensation payable to the director serving as chair of our audit committee will be limited to $200,000 per year.

Under current SEC rules and regulations applicable to business development companies (BDC), a BDC may not grant options or restricted stock to non-employee directors unless it receives exemptive relief from the SEC. The Company filed an exemptive relief request with the SEC to allow options and restricted stock to be issued to its non-employee directors, which was approved on October 10, 2007. On June 22, 2010, the Company received approval from the SEC regarding its exemptive relief request permitting its employees to exercise their stock options and restricted stock and pay any related income taxes using a cashless exercise program.

On June 21, 2007, the stockholders approved amendments to the 2004 Equity Incentive Plan and the 2006 Non-Employee Director Plan allowing for the grant of restricted stock. The 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan limit the combined maximum amount of restricted stock that may be issued under both of the 2004 Equity Incentive Plan and 2006 Non- Employee Director Plan to 10% of the outstanding shares of the Company s common stock on the effective date of the 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan plus 10% of the number of shares of common stock issued or delivered by the Company during the terms of the 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan.

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Stock Ownership Guidelines

The Company implemented stock ownership guidelines which are outlined in the Company s Corporate Governance Guidelines. The Company has implemented stock ownership guidelines because it believes that material stock ownership by directors plays a role in effectively aligning the interests of directors with those of our stockholders and strongly motivates the building of long-term stockholder value. Pursuant to the Company s stock ownership guidelines, each director is required to beneficially own at least three times the individual s annual retainer fee in Company stock, based on market value, within three years of joining the Company. The Board may make exceptions to this requirement based on particular circumstances. Each director has exceeded his respective guideline as of May 14, 2014.

CORPORATE GOVERNANCE

Our business, property and affairs are managed under the direction of our Board. Members of our Board are kept informed of our business through discussions with our Chairman and Chief Executive Officer, our Chief Financial Officer, our Chief Investment Officer, our Secretary, General Counsel and Chief Compliance Officer, and other officers and employees, and by reviewing materials provided to them and participating in meetings of the Board and its committees.

Corporate Governance Changes in Fiscal Year 2013 and for Fiscal Year 2014

Because our board is committed to strong and effective corporate governance, it regularly monitors our corporate governance policies and practices to ensure we meet or exceed the requirements of applicable laws, regulations and rules, and the NYSE s listing standards. The board has approved corporate governance guidelines that provide a framework for the operation of the board and address key governance practices. The board has adopted a number of policies to support our values and good corporate governance, including corporate governance guidelines, board committee charters, insider trading policy, code of ethics, code of business conduct, and related person transaction approval policy.

As part of its on-going review of our corporate governance policies, our board has approved the following changes to our corporate governance guidelines.

Director term limits All new directors will be limited to terms of 10 years, and the mandatory retirement age is set at 75 (with Messrs. Badavas and Woodward being exempt from such term limits).

Committee chair term limits The chairpersons of the nominating and corporate governance committee and the compensation committee will be limited to three year terms, and the chairperson of the audit committee will be limited to a five year term (with Mr. Badavas, the current audit committee chairperson, being excluded from such term limits).

Our board will continue to review and update the corporate governance guidelines and our corporate governance framework, including the potential expansion of the size of our board.

Board Leadership Structure

Chairman and Chief Executive Officer

Our board currently combines the role of chairman of the board with the role of chief executive officer, coupled with a lead independent director position to further strengthen our governance structure. Our board believes this provides an efficient and effective leadership model for our company. Combining the chairman and chief executive officer roles fosters clear accountability, effective decision-making, and alignment on corporate strategy. Since 2004, Mr. Henriquez has served as both chairman of the board and chief executive officer.

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No single leadership model is right for all companies at all times. Our board recognizes that depending on the circumstances, other leadership models, such as a separate independent chairman of the board, might be appropriate. Accordingly, our board periodically reviews its leadership structure.

Moreover, our board believes that its governance practices provide adequate safeguards against any potential risks that might be associated with having a combined chairman and chief executive officer. Specifically:

two of our three current directors who will serve on our board following the annual meeting are independent directors, and during his term Mr. Chow was an independent director;

all of the members of our audit committee, compensation committee, nominating and corporate governance committee and valuation committee are independent directors;

our board and its committees regularly conduct scheduled meetings in executive session, out of the presence of Mr. Henriquez and other members of management;

our board and its committees regularly conduct meetings which specifically include Mr. Henriquez;

our board and its committees remain in close contact with, and receive reports on various aspects of Hercules s management and enterprise risk directly from our senior management and independent auditors; and

our board and its committees interact with employees of the company outside the ranks of senior management.

Lead Independent Director

Our board has instituted the lead independent director position to provide an additional measure of balance, ensure our board s independence, and enhance its ability to fulfill its management oversight responsibilities. Allyn C. Woodward, Jr., the chairman of our compensation committee and our nominating and corporate governance committee, currently serves as the lead independent director. The lead independent director:

presides over all meetings of the directors at which our chairman is not present, including executive sessions of the independent directors;

has the authority to call meetings of the independent directors;

frequently consults with our chairman and chief executive officer about strategic policies;

provides our chairman and chief executive officer with input regarding board meetings;

serves as a liaison between the chairman and chief executive officer and the independent directors; and

otherwise assumes such responsibilities as may be assigned to him by the independent directors.

Having a combined chairman and chief executive officer, coupled with a substantial majority of independent, experienced directors, including a lead independent director with specified responsibilities on behalf of the independent directors, provides the right leadership structure for our company and is best for us and our stockholders at this time.

Board Oversight of Risk

While risk management is primarily the responsibility of our management team, our board is responsible for oversight of the material risks faced by us at both the full board level and at the committee level.

Our audit committee has oversight responsibility not only for financial reporting with respect to our major financial exposures and the steps management has taken to monitor and control such exposures, but also for the effectiveness of management s enterprise risk management process that monitors and manages key business risks facing our company. In addition to our audit committee, the other committees of our board consider the risks within their areas of responsibility. For example, our compensation committee considers the risks that may be implicated by our executive compensation program.

Management provides regular updates throughout the year to our board regarding the management of the risks they oversee at each regular meeting of our board. Also, our board receives presentations throughout the year from various department and business group heads that include discussion of significant risks as necessary. Additionally, our full board reviews our short and long-term strategies, including consideration of significant risks facing our business and their potential impact.

Our board has established an audit committee, a valuation committee, a compensation committee, and a nominating and corporate governance committee. A brief description of each committee is included in this proxy statement and the charters of the audit, compensation, and nominating and corporate governance committees are available on the Investor Relations section of our website at http://investor.htgc.com/governance.cfm

The table below provides current membership (M) and chairmanship (C) information for each standing board committee.

Name	Audit	Valuation	Compensation	Nominating and Corporate Governance
Robert P. Badavas	C	M	M	M
Joseph W. Chow[(1)]	M	C	M	M
Allyn C. Woodward, Jr.	M	M	C	C
Manuel A. Henriquez				

(1) Mr. Chow has notified the board that he will not stand for re-election at the annual meeting, and his term will expire immediately prior to the 2014 annual meeting.

During 2013, our board held 15 full board meetings, 20 committee meetings and acted by written consent. All of the directors attended at least 95% of the full board meetings and all of the respective committee meetings on which they serve. Each director makes a diligent effort to attend all board and committee meetings, as well as our annual meeting of stockholders. Each of the directors attended our 2013 annual meeting of stockholders in person.

Audit Committee. Our board has established an audit committee. Our audit committee comprises Messrs. Badavas, Chow and Woodward, each of whom is an independent director and satisfies the independence requirements for purposes of the rules promulgated by the New York Stock Exchange, or NYSE, and the requirements to be a non-interested director as defined in Section 2(a)(19) of the 1940 Act. Mr. Badavas currently serves as chairman of our audit committee and is an audit committee financial expert as defined by applicable Securities and Exchange Commission, or SEC, rules. Our audit committee is responsible for assisting our board in fulfilling its oversight responsibilities related to: (i) appointing, overseeing and replacing, if necessary, our independent auditor; (ii) overseeing the accounting and financial reporting processes of Hercules and our subsidiaries; (iii) overseeing the integrity of the financial statements of Hercules and our subsidiaries; (iv) establishing procedures for complaints relating to accounting, internal accounting controls or auditing matters, (v) examining the independence qualifications and; (vi) preparing the report required by the SEC to be included in our annual proxy statement; (vii) assisting our board s oversight of our compliance with legal and regulatory requirements; and (viii) assisting our board in fulfilling its oversight responsibilities related to the systems of internal controls and disclosure controls which management has established regarding finance, accounting, and regulatory compliance. During the last fiscal year, the audit committee held seven meetings and acted by written consent.

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Our audit committee provides assistance to our board in various matters, including, among other things, fulfilling its responsibilities with respect to the following:

annually, evaluating the appointment, compensation and retention of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for Hercules and our subsidiaries, including resolution of disagreements between management and the independent auditor regarding financial reporting;

preapproving any independent auditors engagement to render audit and/or permissible non-audit services (including the fees charged and proposed to be charged by the independent auditors);

receiving formal written statements, at least annually, from the independent auditor regarding the auditor s independence, including a delineation of all relationships between the auditor and us; discussing with the independent auditor any disclosed relationships or services that may impact the objectivity and independence of the independent auditor, addressing, at least annually, the matters, required by applicable requirements of the Public Company Accounting Oversight Board; recommending to our board actions to satisfy our board of the independence of the audit; and, if so determined by our audit committee, recommending that our board take appropriate action to oversee the independence of the auditor;

at least annually, obtaining and reviewing a report from the independent auditor detailing the firm s internal quality control procedures, any material issues raised by the independent auditor s internal quality control review, peer review or any governmental or other professional inquiry performed within the past five years and any remedial actions implemented by the firm and all relationships between the independent auditor and us;

annually, obtaining from the independent auditors a formal written statement of the fees billed in the last fiscal year for categories of services rendered by the independent auditors, and listed in our audit committee charter;

monitoring the rotation of the lead (or coordinating) audit partner (or other employees of the independent auditor if required by SEC rules and regulations) having primary responsibility for the audit and the audit partner responsible for reviewing the audit;

considering the effect on us of: (i) any changes in accounting principles or practices proposed by management or the independent auditors; and (ii) any changes in service providers, such as the accountants, that could impact our internal control over financial reporting;

evaluating the efficiency and appropriateness of the services provided by the independent auditors, including any significant difficulties with the audit or any restrictions on the scope of their activities or access to required records, data and information;

reviewing with the independent auditors the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on our financial statements;

reviewing with the independent auditor the overall scope and plans for audits, including authority and organizational reporting lines and adequacy of staffing and compensation;

interacting with the independent auditors, including meeting with the independent auditors at least four times during each fiscal year, reviewing and, where necessary, resolving any problems or difficulties the independent auditor may have encountered in connection with the annual audit or otherwise, any management letters provided to our audit committee and our responses;

reviewing and discussing with management and the independent auditor our system of internal controls (including any significant deficiencies in the design or operation of those controls which could adversely affect our ability to record, process, summarize and report financial data), its financial and critical accounting practices, and policies relating to risk assessment and management;

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receiving and reviewing reports of the independent auditor discussing: (i) all critical accounting policies and practices to be used in the firm s audit of our financial statements, (ii) all alternative treatments of financial information within generally accepted accounting principles, referred to as GAAP, that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor, and (iii) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences;

reviewing and discussing with management and the independent auditor our annual and quarterly financial statements;

reviewing material pending legal proceedings involving us and other contingent liabilities;

periodically, meeting separately with management (or other personnel responsible for the internal audit function) and with independent auditors to discuss results of examinations of our internal controls and procedures;

discussing with the independent auditors the matters required to be communicated to our audit committee in accordance with Statement on Auditing Standards No. 61;

establishing procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by employees, consultants or contractors of concerns regarding questionable accounting or accounting matters;

setting hiring policies relating to our hiring of employees or former employees of the independent auditors;

producing an audit committee report for inclusion in our annual report on Form 10-K or proxy statement for the annual meeting of stockholders;

reviewing the adequacy of our audit committee charter annually and submitting an audit committee charter to our board for approval;

reporting recommendations to our board on a regular basis and annually performing, or participating in, an evaluation of our audit committee;

reviewing such other matters as our board or the audit committee shall deem appropriate; and

determining funding necessary for ordinary administrative expenses that are necessary or appropriate in carrying out our audit committee s duties.

Valuation Committee. Our board has established a valuation committee. Our valuation committee comprises Messrs. Badavas, Chow and Woodward, each of whom is an independent director and satisfies the independence requirements for purposes of the rules promulgated by the NYSE and the requirements to be a non-interested director as defined in Section 2(a)(19) of the 1940 Act. Mr. Chow currently serves as chairman of our valuation committee. Following his retirement from the board, the chairmanship of the valuation committee will be reassigned, or the functions of the committee will be reallocated to the audit committee. Our valuation committee is responsible for reviewing and recommending to our full board the fair value of debt and equity securities in accordance with established valuation procedures. Our valuation committee may utilize the services of an independent valuation firm in determining the fair value of these securities. During the last fiscal year, our valuation committee held four meetings.

Our committee provides assistance to our board in various matters, including, among other things, fulfilling its responsibilities with respect to the following:

- determining the fair value of our portfolio debt and equity securities and other assets in accordance with the 1940 Act and the valuation policies and procedures adopted by our board, as amended from time to time, in order to recommend the portfolio valuation to our full board for approval; and retaining, terminating and determining the compensation for an independent valuation firm and any legal, accounting or other expert or experts to assist in: (i) reviewing our valuation processes applicable to non-publicly traded companies; (ii) reviewing fair market value calculations as requested from time to time with respect to select companies; and (iii) carrying out our valuation committee s duties and responsibilities.

Compensation Committee. Our board has established a compensation committee. Our compensation committee comprises Messrs. Badavas, Chow and Woodward, each of whom is an independent director and satisfies the independence requirements for purposes of the rules promulgated by the NYSE and the requirements to be a non-interested director as defined in Section 2(a)(19) of the 1940 Act. Mr. Woodward currently serves as chairman of our compensation committee. Our compensation committee determines compensation for our executive officers, and it administers our 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan. During the last fiscal year, our compensation committee held seven meetings and acted by written consent.

Our compensation committee provides assistance to our board in various matters, including, among other things, fulfilling its responsibilities with respect to the following:

assisting our board in developing and evaluating potential candidates for executive positions (including the chief executive officer) and overseeing the development of executive succession plans;

annually, reviewing and approving corporate objectives relevant to our chief executive officer s and our other executive officer s total compensation, evaluating our chief executive officer s and our other executive officers performance to ensure that it is designed to achieve the objectives of rewarding our executive officers appropriately for their contributions to corporate growth and profitability and, together with our chief executive officer, evaluating and approving the compensation of our other executive officers;

annually, determining and approving the compensation paid to our chief executive officer;

annually, reviewing our compensation practices and the relationship among risk, risk management and compensation in light of our corporate objectives, including their safety and soundness and the avoidance of practices that would encourage excessive risk;

periodically, reviewing our incentive compensation plans and perquisites, making recommendations to our board regarding the adoption of new employee incentive compensation plans and equity-based plans, and administering our existing incentive compensation plans and equity-based plans;

periodically, evaluating the compensation of directors and making recommendations regarding adjustments to such compensation;

producing a committee report on executive compensation for inclusion in the our annual report on Form 10-K or proxy statement for the annual meeting of stockholders in accordance with Item 407(e)(5) of Regulation S-K;

annually reviewing and discussing with our management the executive compensation disclosure to be included in our annual report on Form 10-K or our proxy statement for the annual meeting of stockholders, including the Compensation Discussion and Analysis required by Item 402 of Regulation S-K, and subsequent to such review determining whether to recommend to our board that such disclosure be included in our annual report on Form 10-K or our proxy statement for the annual meeting of stockholders;

periodically, reviewing and assessing the adequacy of our compensation committee charter and submitting any changes to our board for approval;

determining funding necessary for ordinary administrative expenses that are necessary or appropriate in carrying out the committee s duties;

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regularly, reporting recommendations to our board, and annually performing, or participating in, an evaluation of the committee, the results of which shall be presented to our board;

when it is determined by the committee that a consulting firm (or other expert) is to assist in the assessment of the CEO s or other executive officer s compensation, our committee is responsible for retaining and terminating such firm or experts and approving the consulting firm or other expert s fee and other retention terms;

retaining legal, accounting or other experts that our committee determines to be necessary to carry out its duties and determining compensation for such advisors; and

reviewing such other matters as our board or the compensation committee deem appropriate.

Nominating and Corporate Governance Committee. Our board has established a nominating and corporate governance committee. Our nominating and corporate governance committee comprises Messrs. Badavas, Chow and Woodward, each of whom is an independent director and satisfies the independence requirements for purposes of the rules promulgated by the NYSE and the requirements to be a non-interested director as defined in Section 2(a)(19) of the 1940 Act. Mr. Woodward currently serves as chairman of our nominating and corporate governance committee. Our nominating and corporate governance committee will nominate to our board for consideration candidates for election as directors to our board. During the last fiscal year, our nominating and corporate governance committee held two meetings. Our nominating and corporate governance committee met in December 2013 to consider candidates for election to our board for our 2014 annual meeting of stockholders.

Our nominating and corporate governance committee provides assistance to our board in various matters, including, among other things, fulfilling its responsibilities with respect to the following:

identifying individuals qualified to become board members, consistent with criteria approved by our board, receiving nominations for such qualified individuals, selecting, or recommending that our board select, the director nominees for our next annual meeting taking into account each candidate s ability, judgment and experience and the overall diversity and composition of our board;

recommending to our board candidates for election to our board and evaluating our board in accordance with criteria set forth in the committee s charter;

monitoring board composition and recommending candidates as necessary to ensure that the number of independent directors serving on the Board satisfies the NYSE and SEC requirements;

developing and periodically evaluating initial orientation guidelines and continuing education guidelines for each member of our board and each member of each committee thereof regarding his or her responsibilities as a director generally and as a member of any applicable committee of our board;

establishing a policy under which our stockholders may recommend a candidate to the nominating and corporate governance committee for consideration for nomination as a director;

recommending to our board qualified individuals to serve as committee members on the various board committees;

recommending to our board or to the appropriate committee thereto processes for annual evaluations of the performance of our board, our chairman of the board and chief executive officer, and its standing audit committee, compensation committee and valuation committee;

clearly articulating to each director what is expected of their tenure on our board, including directors basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials;

developing and periodically evaluating orientation guidelines and continuing education guidelines for each member of our board and each member of each committee thereof regarding his or her responsibilities as a director generally and as a member of any applicable committee of our board;

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- reviewing our practices and policies with respect to directors, including the size of our board, the ratio of employee directors to non-employee directors, the meeting frequency of our board and the structure of board meetings and making recommendations to our board with respect thereto;
- overseeing the maintenance and presentation to our board of management s plans for succession to senior management positions in the company;
- monitoring and making recommendations to our board on matters of our policies and practices relating to corporate governance;
- annually, evaluating our Code of Business Conduct and Ethics and, if appropriate, recommending changes to that code;
- in concert with our board, reviewing our policies with respect to significant issues of corporate public responsibility, including charitable contributions;
- considering and reporting to our board any questions of possible conflicts of interest of board members;
- reviewing stockholder proposals regarding corporate governance and making recommendations to our board;
- reviewing and assessing the adequacy of the committee charter and the charters of other existing board committees, submitting any changes to our board for approval;
- reporting committee actions to our board on a regular basis and annually performing, or participating in, an evaluation of the committee;
- annually, performing or participating in, an evaluation of the performance of the committee, the results of which shall be presented to our board;
- retaining and terminating a search firm to assist in the identification of director candidates, and approving the search firm s fees and other retention terms; and
- retaining legal, accounting or other experts that our committee determines to be necessary to carry out its duties, and to determine compensation for such advisors.

Our nominating and corporate governance committee will consider qualified director nominees recommended by stockholders when such recommendations are submitted in accordance with our bylaws and any other applicable law, rule or regulation regarding director nominations. When submitting a nomination to our for consideration, a stockholder must provide certain information that would be required under applicable SEC rules, including the following minimum information for each director nominee: full name, age, and address; class, series and number of shares of our common stock beneficially owned by the nominee, if any; the date such shares were acquired and the investment intent of such acquisition; whether such stockholder believes the individual is an interested person of Hercules, as defined in the 1940 Act; and all other information required to be disclosed in solicitations of proxies for election of directors in an election contest or is otherwise required.

In evaluating director nominees, our nominating and corporate governance committee considers the following factors:

- the appropriate size and the diversity of our board;
- whether or not the nominee is an interested person of Hercules as defined in Section 2(a)(19) of the 1940 Act;
- our needs with respect to the particular talents and experience of its directors;
- the knowledge, skills and experience of nominees in light of prevailing business conditions and the knowledge, skills and experience already possessed by other members of our board;

- experience with accounting rules and practices;
- the desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members; and
- all applicable laws, rules, regulations, and listing standards.

Our nominating and corporate governance committee identifies nominees by first evaluating our current board members willing to continue in service. Our current board members with skills and experience that are relevant to our business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of our board with that of obtaining a new perspective. If any member of our board does not wish to continue in service or if our nominating and corporate governance committee or our board decides not to re-nominate a member for re-election, or if our nominating and corporate governance committee recommends to expand the size of our board, our nominating and corporate governance committee identifies the desired skills and experience of a new nominee in light of the criteria above. Current members of our nominating and corporate governance committee and our Board provide suggestions as to individuals meeting the criteria of our nominating and corporate governance committee Consultants may also be engaged to assist in identifying qualified individuals.

Director Independence

The NYSE s listing standards and Section 2(a)(19) of the 1940 Act require that a majority of our board and every member of our audit, compensation, and nominating and corporate governance committees are independent. Under the NYSE s listing standards and our corporate governance guidelines, no director will be considered to be independent unless and until our board affirmatively determines that such director has no direct or indirect material relationship with our company or our management. Our board reviews the independence of its members annually.

In determining that Messrs. Badavas and Woodward are independent, our board, through the nominating and corporate governance committee, considered the financial services, commercial, family and other relationships between each director and his or her immediate family members or affiliated entities, on the one hand, and Hercules and its subsidiaries, on the other hand.

Communication with the Board

We believe that communications between our board, our stockholders and other interested parties are an important part of our corporate governance process. Stockholders with questions about Hercules are encouraged to contact our Investor Relations department at (650) 289-3060. However, if stockholders believe that their questions have not been addressed, they may communicate with our board by sending their communications to Hercules Technology Growth Capital, Inc., c/o Michael Penney, secretary and general counsel, 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301. All stockholder communications received in this manner will be delivered to one or more members of our board.

Allyn C. Woodward, Jr., the chairman of our compensation committee and our nominating and corporate governance committee, currently serves as the lead independent director, and presides over all meetings of the directors, including executive sessions of the independent directors. Parties may communicate directly with Mr. Woodward by sending their communications to Hercules Technology Growth Capital, Inc., c/o Michael Penney, secretary and general counsel. All communications received in this manner will be delivered to Mr. Woodward.

All communications involving accounting, internal accounting controls and auditing matters, possible violations of, or non-compliance with, applicable legal and regulatory requirements or the Codes, or retaliatory

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acts against anyone who makes such a complaint or assists in the investigation of such a complaint, will be referred to our secretary and general counsel. The communication will be forwarded to the chair of our audit committee if our secretary and general counsel determines that the matter has been submitted in conformity with our whistleblower procedures or otherwise determines that the communication should be so directed.

The acceptance and forwarding of a communication to any director does not imply that the director owes or assumes any fiduciary duty to the person submitting the communication, all such duties being only as prescribed by applicable law.

Code of Ethics

Our code of ethics, which is signed by our directors and executive officers, requires that our directors and executive officers avoid any conflict, or the appearance of a conflict, between an individual s personal interests and the interests of Hercules. Pursuant to our code of ethics, which is available on our website at *http://investor.htgc.com/governance.cfm*, each director and executive officer must disclose any conflicts of interest, or actions or relationships that might give rise to a conflict, to our audit committee. Certain actions or relationships that might give rise to a conflict of interest are reviewed and approved by our board.

Compensation Committee Interlocks and Insider Participation

All members of our compensation committee are independent directors and none of the members are present or past employees of Hercules. No member of our compensation committee: (i) has had any relationship with Hercules requiring disclosure under Item 404 of Regulation S-K under the Securities Exchange Act of 1934; or (ii) is an executive officer of another entity, at which one of our executive officers serves on our board.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Summary

Hercules continued its strong performance during 2013. As discussed below and detailed in our annual report on Form 10-K for the year ended December 31, 2013, in 2013 Hercules posted a 52.0% increase in net investment income to approximately $73.1 million on record levels of total investment income of approximately $139.7 million. Our financial position at the conclusion of 2013 was also strong as evidenced by our $373.4 million of available liquidity at December 31, 2013.

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The total realized shareholder return on our common stock during fiscal 2013 was approximately 59%*, which ranked first against our Current Peer Group (as defined below under *Assessment of Market Data; Changes to Peer Group*). In addition to our 2013 financial results, the following graph details the total shareholder return to our shareholders during the last five years, as compared to our Current Peer Group, the Standard & Poor s 500 Stock Index and the Dow Jones Industrial Average:

We believe our compensation actions relating to 2013 corporate and individual performance illustrate an alignment between the compensation of our named executive officers, or NEOs, during 2013, and the performance of Hercules on an absolute and relative basis. We further believe that our executive compensation programs utilize an effective mix of short- and long-term compensation components determined relative to key measures of our performance and the returns enjoyed by our shareholders. Consistent with our pay-for-performance philosophy, our compensation committee will make future compensation decisions in light of our performance, and, if our future performance were to lag behind our peers, our compensation committee would adjust NEO compensation accordingly.

This Compensation Discussion and Analysis, or CD&A, provides information relating to the following NEOs during 2013.

Name	Title
Manuel Henriquez	Chairman, President and Chief Executive Officer, or CEO
Jessica Baron	Chief Financial Officer
Parag Shah	Senior Managing Director and Life Science Group Head
Scott Bluestein(1)	Chief Credit Officer
Todd Jaquez-Fissori(2)	Senior Managing Director and Clean Technology Group Head

(1) Mr. Bluestein was promoted to Chief Investment Officer as of April 30, 2014.
(2) Mr. Fissori resigned from Hercules as of April 25, 2014.

* For purposes of this calculation and comparison, total shareholder return is calculated as price appreciation plus reinvestment of dividends and the compounding effect of dividends paid on reinvested dividends.

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Compensation Philosophy and Objectives

Our compensation committee developed our 2013 compensation program, and the compensation paid to our NEOs during 2013 was approved by all of our independent directors. Our compensation programs are intended to align the interests of our shareholders with the interests of management, and to reward our NEOs for their collective and independent contributions to our performance. Our compensation programs are intended to, among other things:

provide the compensation and incentives necessary to attract, motivate and retain key executives critical to our continued success and growth, while also aligning management interests with the interests of our shareholders,

focus management behavior and decision-making on goals that are consistent with the overall strategy of the business,

ensure a linkage between NEO compensation and individual contributions to our performance, and

manage risk appropriately.

We believe that our continued success during 2013 was attributable to our ability to motivate and retain and motivate our outstanding executive talent through the use of both current and long-term incentive compensation programs, especially in an environment of competition for top-quality executive talent in the venture debt industry.

Overview

Our compensation objectives are achieved through our executive compensation program, which for 2013 consisted of the following elements:

Compensation Element	Form of Compensation	Compensation Objective
Annual Base Salary	Cash paid on a regular basis throughout the year	Provide a level of fixed income that is competitive and allows us to retain and attract executive talent
Annual Cash Bonus Awards	Cash awards paid on an annual basis following year-end	Reward executives who contribute to our financial performance and strategic success during the year, and reward individual NEO achievements
Long-Term Equity Incentive Awards	Equity incentive awards vesting ratably over three years based on continued employment with Hercules	Reward executives who contribute to our success through the creation of shareholder value and to provide meaningful retention incentives, and reward individual NEO achievements

Our compensation committee has also designed our compensation programs to reflect what it believes to be certain best practices in executive compensation. In particular:

we do not have employment agreements with any of our NEOs,

we do not provide for cash severance payments or change of control benefits,

we do not have guaranteed retirement benefits, we do not provide our NEOs with executive perquisite allowances beyond the benefit programs offered to all of our employees,

we maintain stock ownership guidelines that require members of senior management to own at least two times his or her annual salary in our common stock, and

our compensation committee engaged an independent compensation consultant in connection with its review of incentive compensation to be paid with respect to 2013 and to assist in the design of compensation structures applicable to 2014 and future fiscal periods.

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As discussed below under *Annual Cash Bonuses* , Hercules experienced strong financial performance during 2013. We believe that the compensation package paid to each NEO with respect to our 2013 performance appropriately rewarded each NEO for his or her contribution to such performance.

Response to 2013 Shareholder Advisory Vote on Executive Compensation

At our 2013 annual meeting of shareholders, we provided our shareholders with the opportunity to cast an advisory vote on say-on-pay with respect to NEO compensation disclosed in our proxy statement for the 2013 annual meeting. As reported, 48% of our shareholders voted in favor of this advisory vote.

In response to the less-than-majority support of our 2013 advisory vote on executive compensation, we sought feedback from our top 25 institutional shareholders who collectively held approximately 35% of our outstanding shares as of December 31, 2013. Through this outreach program, we engaged in direct dialogue with our largest institutional shareholders to gain broad-based insights on our executive compensation and corporate governance practices in an effort to provide clarity about our compensation practices and to better understand and address their concerns. Our compensation committee has considered this feedback in connection with its compensation decisions for 2013, and, in coordination with our compensation consultant, revised our peer group to better align it with our business. Our compensation committee reviewed in detail our company-specific performance factors (as further discussed below under *Assessment of Hercules Performance*) against those of our revised, Current Peer Group in its evaluation of compensation paid with respect to 2013. Further, our compensation committee is continuing its work with our compensation consultant to review and evaluate the insights gained from this outreach and to design compensation structures intended to even more closely align NEO compensation with our performance.

Establishing Compensation Levels

Our compensation committee provides primary oversight of our compensation programs, including the design and administration of executive compensation plans, assessment and setting of corporate performance, as well as individual performance, metrics, and the approval of executive compensation. In addition, our compensation committee retains an independent compensation consultant, and where appropriate, discusses compensation related matters with our CEO, as it relates to the other NEOs.

Role of Compensation Committee

Our compensation committee is comprised entirely of independent directors who are also non-employee directors as defined in Rule 16b-3 under the Securities Exchange Act of 1934, as amended, referred to as the 1934 Act, independent directors as defined by the NYSE rules, and are not interested persons of Hercules, as defined by Section 2(a)(19) of the Investment Company Act of 1940, as amended, referred to as the 1940 Act. Messrs. Badavas, Chow and Woodward are the members of the compensation committee, and Mr. Woodward chairs the committee.

Our compensation committee operates pursuant to a charter that sets forth the mission of the committee and its specific goals and responsibilities. A key component of our compensation committee s goals and responsibilities is to evaluate and make recommendations to our board regarding the compensation of our NEOs, and to review their performance relative to their compensation to assure that they are compensated effectively in a manner consistent with the compensation philosophy discussed above. In addition, our compensation committee evaluates and makes recommendations to our board regarding the compensation of the directors for their services. Annually, our compensation committee:

- evaluates our CEO s performance to ensure that the compensation program is designed to achieve the objectives of retaining and properly rewarding our CEO appropriately for his contributions to corporate performance,

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reviews our CEO s evaluation of the other NEOs performance to ensure that the compensation program is designed to achieve the objectives of retaining and properly rewarding our other NEOs appropriately for their contributions to corporate performance,

determines and approves the compensation paid to our CEO, and

with input from our CEO, reviews and approves the compensation of the other NEOs.

Our compensation committee periodically reviews our compensation programs and equity incentive plans to ensure that such programs and plans are consistent with our corporate objectives and appropriately align our NEOs interests with those of our shareholders. Our compensation committee also administers our stock incentive arrangements with our NEOs and other employees. Our compensation committee may not delegate its responsibilities discussed above.

Role of Compensation Consultant

Our compensation committee has engaged Frederic W. Cook & Co., Inc., referred to as F.W. Cook, as an independent outside compensation consultant to assist the compensation committee and provide advice on a variety of compensation matters relating to CEO compensation, compensation paid to our other NEOs, peer group selection, compensation program design, market and industry compensation trends, director compensation levels and regulatory developments. F.W. Cook was hired by and reports directly to the compensation committee. While F. W. Cook may work directly with our CEO or other members of management on behalf of the compensation committee, any such work is under the control and supervision of the compensation committee. Our compensation consultant does not provide any other services to Hercules. The compensation committee has assessed the independence of F.W. Cook pursuant to the NYSE rules, and Hercules has concluded that the consultant s work for the compensation committee did not raise any conflicts of interest.

Role of Chief Executive Officer

From time to time and at our compensation committee s request, our CEO will attend limited and selected portions of the committee s meetings to discuss our performance and compensation-related matters. Our CEO does not attend executive sessions of the committee, unless invited by our compensation committee. While he does not participate in any deliberations relating to his own compensation, our CEO reviews on at least an annual basis the performance of each of the other NEOs and other executive officers. Based on these performance reviews and our overall performance, our CEO makes recommendations to our compensation committee on any changes to base salaries, incentive compensation awards and equity awards. Our compensation committee considers the recommendations submitted by our CEO, as well as data and analysis provided by management and F.W. Cook, but retains full discretion to approve or recommend for board approval all executive and director compensation.

Assessment of Market Data; Changes to Peer Group

To determine the competitiveness of executive compensation levels, our compensation committee analyzes market data of certain companies, including internally and externally managed BDCs, private equity firms and other asset management and financial services companies.

During 2013, the compensation committee primarily looked to a comparative group of companies to perform compensation comparisons. That comparative group of companies comprised: American Capital, Ltd.; BofI Holdings, Inc.; Bridge Capital Holdings; Capital Southwest Corporation; Fortress Investment Group LLC; ICG Group, Inc.; KCAP Financial, Inc.; Main Street Capital Corporation; MCG Capital Corporation; PacWest Bancorp; SVB Financial Group; and Triangle Capital Corporation.

During 2014, our compensation committee, based on the advice of F.W. Cook, performed a review of our peer group. Based on this review, and the advice of F.W. Cook, our compensation committee approved changes

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to our peer group to better align our peer group to our business. This revised peer group, referred to as the Current Peer Group, was used as a factor in determining the annual cash bonus awards made with respect to 2013 (which were paid in 2014), along with the various performance considerations further described below under *Annual Cash Bonus Awards* .

The Current Peer Group consists of the following 20 internally managed and externally managed BDCs:

Internally Managed	Externally Managed
American Capital	Apollo Investment
Capital Southwest	Ares Capital
KCAP Financial	BlackRock Kelso Capital
Main Street Capital	Fifth Street Finance
MCG Capital	Golub Capital BDC
Medallion Financial	Medley Capital
Triangle Capital	New Mountain Finance
	PennantPark Investment
	Prospect Capital
	Solar Capital
	TCP Capital
	THL Credit
	TICC Capital

The following table provides further financial information with respect to the Current Peer Group as of December 31, 2013.

		Financials ($M)		
Company Name	**Mgmt**	**Revenue**	**Assets**	**Market Cap as of 12/31/13**
Ares Capital Corp.	E	$ 882	$ 8,142	$ 5,252
American Capital Ltd.	I	$ 487	$ 6,009	$ 4,418
Prospect Capital Corp.	E	$ 626	$ 5,194	$ 3,189
Apollo Investment Corp.	E	$ 370	$ 3,380	$ 1,905
Fifth Street Finance Corp.	E	$ 241	$ 2,454	$ 1,287
Solar Capital Ltd.	E	$ 164	$ 1,708	$ 1,000
Main Street Capital Corp.	I	$ 116	$ 1,360	$ 1,298
BlackRock Kelso Capital Corp.	E	$ 132	$ 1,282	$ 694
PennantPark Investment Corp.	E	$ 131	$ 1,255	$ 772
Golub Capital BDC Inc.	E	$ 91	$ 1,265	$ 827
New Mountain Finance Corp.	E	$ 115	$ 1,148	$ 679
TICC Capital Corp.	E	$ 105	$ 998	$ 551
Triangle Capital Corp.	I	$ 101	$ 815	$ 765
Medley Capital Corp.	E	$ 103	$ 885	$ 557
TCP Capital Corp.	E	$ 70	$ 803	$ 596
Capital Southwest Corp.	I	$ 11	$ 780	$ 532
THL Credit Inc.	E	$ 75	$ 673	$ 559
Medallion Financial Corp.	I	$ 36	$ 595	$ 358
MCG Capital Corp.	I	$ 50	$ 514	$ 313
KCAP Financial Inc.	I	$ 48	$ 459	$ 269
All Companies (n=20)				
75th Percentile		$ 183	$ 1,895	$ 1,290
Median		$ 110	$ 1,202	$ 730
25th Percentile		$ 73	$ 797	$ 555
Hercules Tech Growth Cap		$ 140	$ 1,222	$ 1,013

* E signifies that the BDC is externally managed, and I signifies that the BDC is internally managed.

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The items taken into account by our compensation committee include, but are not limited to, base compensation, bonus compensation, restricted stock awards, carried interest and other compensation paid by other internally managed and externally managed BDCs, including the 2% base management fee and 20% incentive fee generally charged by externally managed BDCs. In addition to actual levels of compensation, our compensation committee also analyzed the approach other BDCs were taking with regard to their compensation practices. However, our compensation committee does not specifically benchmark the compensation of our NEOs against that paid by other companies with publicly traded securities because, in addition to our Current Peer Group, our competitors for executive talent also include private equity firms, venture capital firms, mezzanine lenders, hedge funds and other specialty finance companies that do not publicly disclose compensation paid to individual executive officers.

Assessment of Hercules Performance

In determining annual compensation for our NEOs, our compensation committee analyzes and evaluates the individual achievements and performance of our NEOs as well as the overall operating performance and achievements of Hercules. We believe that the alignment of (i) our business plan, (ii) shareholder expectations and (iii) our employee compensation is essential to long-term business success in the interest of our shareholders and employees and to our ability to attract and retain executive talent, especially in an environment of competition for top-quality executive talent in the venture debt industry. Our business plan involves taking on investment risk over an extended period of time, and a premium is placed on our ability to maintain stability and growth of net asset values as well as continuity of earnings growth to pass through to shareholders in the form of recurring dividends over the long term. Our strategy is to generate income and capital gains from our investments in the debt with warrant securities, and to a lesser extent direct equity, of our portfolio companies. This income supports the anticipated payment of dividends to our shareholders. Therefore, a key element of our return to shareholders is current income through the payment of dividends. This recurring payout requires a methodical asset acquisition analyses as well as highly active monitoring and management of our investment portfolio over time. To accomplish these functions, our business requires implementation and oversight by management and key employees with highly specialized skills and experience in the venture debt industry. A substantial part of our employee base is dedicated to the generation of new investment opportunities to allow us to sustain and grow dividends and to the maintenance of asset values in our portfolio.

In reviewing and approving the compensation packages for our NEOs and other key employees, our compensation committee considers numerous factors relative to both the performance and achievement of our strategic and corporate objectives, executive performance factors and the individual performance of each of our NEOs. The most significant company-specific performance factors considered by our compensation committee include the following, among others:

- performance against annual gross commitment origination goals,
- performance against annual gross funding goals,
- gross new commitment yields,
- our efficiency ratio, which measures the ratio of our compensation and administrative expenses versus our revenues,
- total and net investment income,
- net investment margin,
- realized and unrealized gains and losses,

overall credit performance,

liquidity levels,

total shareholder return,

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return on shareholder s equity, based on net investment income, and

return on average assets, based on net investment income.

Elements of Executive Compensation and 2013 Compensation Determinations

Base Salary

We believe that base salaries are a fundamental element of our compensation program. Our compensation committee establishes base salaries for each NEO to reflect (i) the scope of the NEO s industry experience, knowledge and qualifications, (ii) the NEO s position and responsibilities and contributions to our business growth and (iii) salary levels and pay practices of those companies with whom we compete for executive talent.

Our compensation committee considers base salary levels at least annually as part of its review of the performance of NEOs and from time to time upon a promotion or other change in job responsibilities. During its review of base salaries for our executives, the compensation committee primarily considers: individual performance of the executive, including leadership and execution of strategic initiatives and the accomplishment of business results for our company; market data provided by our compensation consultant; our NEOs total compensation, both individually and relative to our other NEOs; and for NEOs other than the CEO, the base salary recommendations of our CEO.

At its meeting on March 4, 2013, recognizing the continuing compensation objectives of retaining its senior management team, our compensation committee approved salary increases for Ms. Baron, Mr. Bluestein and Mr. Jaquez-Fissori. Also, on March 4, 2013, our compensation committee approved a 3% increase in base salary for Messrs. Henriquez and Shah. These salary increases for our NEOs are set forth in the table below.

NEO	2012 Base Salary	2013 Base Salary
Manuel Henriquez	$ 735,000	$ 757,050
Jessica Baron	$ 235,000	$ 285,000
Parag Shah	$ 337,050	$ 347,162
Scott Bluestein	$ 270,000	$ 300,000
Todd Jaquez-Fissori[1]	$ 225,000	$ 260,000

(1) Mr. Fissori resigned from Hercules as of April 25, 2014.

Further information relating to base salary increases approved in 2014 is provided below under *SUBSEQUENT COMPENSATION ACTIONS*.

Annual Cash Bonus Awards

During 2013, our compensation committee, together with input from our CEO, developed a specific bonus pool for the 2013 operating year to be available for our annual cash bonus program. The amount determined to be available for our annual cash program was dependent upon many factors, including those outlined previously under *Assessment of Hercules Performance* .

Our compensation committee designs our annual cash bonuses to motivate our NEOs to achieve financial and non-financial objectives consistent with our operating plan. As a general guideline, our compensation committee generally targets cash bonuses to amounts equal to 50% to 100% of an NEO s base salary; however, such bonus amounts may exceed these targets in the event of exceptional company and individual performance. However, our compensation committee retains discretion in the sizing and awarding of cash bonuses for each NEO to ensure that individual bonus determinations appropriately balance the interests of our shareholders, while rewarding an NEO s contributions to our performance. Accordingly, should actual company and NEO performance exceed expected performance during the year, our compensation committee may adjust individual cash bonuses to take such superior performance into account. Conversely, where an NEO s performance is below expectations, our compensation committee will determine the NEO s annual cash bonus in light of such performance.

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We typically determine and award cash bonuses for our NEOs during the first quarter of the following year. In evaluating the performance of our NEOs to arrive at their 2013 cash bonus awards, our compensation committee considered the performance factor achievements discussed above under *Assessment of Hercules Performance*, and the committee compared our performance and the returns of our shareholders against the performance and shareholder returns of other BDCs. Our compensation committee also considered the following aspects of our 2013 operating performance in the sizing of the bonus pool with respect to 2013 and in the determination of specific NEO cash bonus awards:

Shareholder Return The total realized shareholder return on our common stock during fiscal 2013 was approximately 59%, which ranked first against our Current Peer Group (the 100th percentile)*.

Originations We had record origination levels of approximately $705.0 million in debt and equity commitments to new and existing portfolio companies.

Total Investment Income We had a record level of total investment income of approximately $139.7 million, an increase of 43.3% compared to $97.5 million in the fiscal year ended December 31, 2012, or fiscal 2012.

Net Investment Income We increased our net investment income, or NII, by 52.0% to approximately $73.1 million, as compared to $48.1 million for fiscal 2012. NII per share increased by approximately 27.1% to $1.22 on 58.8 million basic weighted average shares outstanding, as compared to $0.96 per share on 49.1 million basic weighted average shares outstanding for fiscal 2012.

Strong Liquidity Position We finished fiscal 2013 in a strong liquidity position with approximately $373.4 million in available liquidity, including $268.4 million in cash and $105.0 million in bank credit facility availability.

Record Level of M&A and IPO Exits Our portfolio companies announced or completed 27 liquidity (M&A and IPOs) events during 2013, the highest in our history.

Our compensation committee further reviewed each NEO s specific performance achievements and contributions to our 2013 financial performance.

When sizing our cash bonus pool and allocating bonus awards, our compensation committee also evaluated the total compensation paid to our NEOs and other employees against the expense ratios of other BDCs. With respect to 2013, the committee considered company-wide compensation expense as a percentage of average assets among the peers in the Current Peer Group. For the fiscal year ended December 31, 2013, our compensation expense fell between the 25th percentile and the median of the Current Peer Group.

Based on the foregoing considerations and analysis, and after due deliberation, our compensation committee awarded our NEOs the following annual cash bonuses with respect to 2013:

NEO	2013 Cash Bonus Award	As Percentage of 2013 Base Salary
Manuel Henriquez	$ 1,136,000	150%
Jessica Baron	$ 271,000	95%
Parag Shah	$ 350,000	100%
Scott Bluestein	$ 360,000	120%

Todd Jaquez-Fissori[(1)]	$	312,000	120%

(1) Mr. Fissori resigned from Hercules as of April 25, 2014.

* For purposes of this calculation and comparison, total shareholder return is calculated as price appreciation plus reinvestment of dividends and the compounding effect of dividends paid on reinvested dividends.

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Further information relating to bonus awards made subsequent to the 2013 cash bonus awards described above is provided below under *SUBSEQUENT COMPENSATION ACTIONS*.

Long-Term Equity Incentive Compensation

Our long-term equity incentive compensation is designed to develop a strong linkage between pay and our strategic goals and performance, as well as to align the interests of our NEOs, and other executives and key employees, with those of our shareholders by awarding long-term equity incentives in the form of stock options and restricted stock. These awards are made pursuant to our 2004 Equity Incentive Plan, as amended, referred to as the 2004 Plan.

Initial Option Grants

Historically, we have issued option awards under our 2004 Plan upon initial employment. These options generally vest, subject to continued employment, over a period of three years. Options are granted as incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, to the extent permitted, with the remainder granted as nonqualified stock options. The exercise price for option grants under our 2004 Plan is equal to the closing price of our common stock on the NYSE on the date that such grant is approved by our board.

During 2013, none of our NEOs received an option award, and no stock options were awarded to our NEOs for the 2012 fiscal year.

Restricted Stock Awards

In May 2007, we received SEC exemptive relief, and our shareholders approved amendments to the 2004 Plan, permitting us to grant restricted stock awards. We believe that annual restricted stock awards to our NEOs are a critical part of our compensation program as they allow us to:

- align our business plan, shareholders interests and employee concerns,
- manage dilution associated with equity-based compensation,
- match the return expectations of the business more closely with our equity-based compensation plan, and
- retain key management talent.

In our view, restricted stock motivates performance that is more consistent with the type of return expectations that we have established for our shareholders. Accordingly, our compensation committee awards annual restricted stock award grants to our NEOs. These awards typically vest over three years.

For 2013, when determining the size of restricted stock grants for our NEOs, our compensation committee assessed each NEO s individual performance, our overall company performance, as well as the levels of equity compensation paid by other companies with whom we compete for executive talent.

Based on this performance assessment, and after due consideration, our compensation committee, on March 4, 2013, awarded the following short-term and long-term equity incentive awards, in the form of restricted stock, to our NEOs related to their performance during the prior fiscal year as set forth in the tables below. The value of the restricted stock awards listed below was determined to be the closing price of our common stock on the NYSE on March 4, 2013, the date of restricted stock award grants. These restricted stock awards vest subject to continued employment based on two vesting schedules: short-term awards vest one-half on the one year anniversary of the date of the grant and quarterly over the succeeding 12 months, and long-term awards vest one-fourth on the one year anniversary of the date of grant and quarterly over the succeeding 36 months.

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Short-term Awards

	Grant Date	2013 Short-term Restricted Stock Awards	Fair Value of Restricted Stock Awards
Manuel Henriquez	03/04/2013	103,774	$ 1,320,005
Jessica Baron	03/04/2013	14,151	$ 180,001
Parag Shah	03/04/2013	15,330	$ 194,998
Scott Bluestein	03/04/2013	15,723	$ 199,997
Todd Jaquez-Fissori	03/04/2013	13,267	$ 168,756

Long-term Awards

	Grant Date	2013 Long-term Restricted Stock Awards	Fair Value of Restricted Stock Awards
Manuel Henriquez	03/04/2013	196,540	$ 2,499,989
Jessica Baron	03/04/2013	18,082	$ 230,003
Parag Shah	03/04/2013	51,101	$ 650,005
Scott Bluestein	03/04/2013	39,308	$ 499,998
Todd Jaquez-Fissori	03/04/2013	9,827	$ 124,999

Limitations on Grants Under 2004 Plan; Other Plan Terms

The 2004 Plan limits the combined maximum amount of restricted stock that may be issued under both of our 2004 Plan and our 2006 Non-Employee Director Plan to 10% of the outstanding shares of our stock on the effective date of the 2004 Plan and 2006 Non-Employee Director Plan plus 10% of the number of shares of stock issued or delivered by us during the terms of the 2004 Plan and 2006 Non-Employee Director Plan. The prior amendments approved under our 2004 Plan further specify that no one person will be granted awards of restricted stock relating to more than 25% of the shares available for issuance under the 2004 Plan. Further, the amount of voting securities that would result from the exercise of all our outstanding warrants, options and rights, together with any restricted stock issued pursuant to the 2004 Plan and 2006 Non-Employee Director Plan, at the time of issuance will not exceed 25% of our outstanding voting securities, except that if the amount of voting securities that would result from such exercise of all of our outstanding warrants, options and rights issued to our directors and executive officers, together with any restricted stock issued pursuant to the 2004 Plan and 2006 Non-Employee Director Plan, would exceed 15% of our outstanding voting securities, then the total amount of voting securities that would result from the exercise of all outstanding warrants, options and rights, together with any restricted stock issued pursuant to the 2004 Plan and 2006 Non-Employee Director Plan, at the time of issuance will not exceed 20% of our outstanding voting securities.

All restricted stock grants under the 2004 Plan made prior to March 4, 2013 will continue to vest on a monthly basis following their one year anniversary over the succeeding 36 months. During 2012, the Compensation Committee adopted a policy that provided for awards with different vesting schedules for short and long-term awards. Under the 2004 Plan, restricted stock awards vest subject to continued employment based on two vesting schedules: short-term awards vest one-half on the one year anniversary of the date of the grant and quarterly over the succeeding 12 months, and long-term awards vest one-fourth on the one year anniversary of the date of grant and quarterly over the succeeding 36 months.

Eligibility includes all of our NEOs. Each grant of restricted stock under the 2004 Plan to our NEOs will contain such terms and conditions, including consideration and vesting, as our Board deems appropriate and as allowed for within the provisions of the 2004 Plan. Under the 2006 Non-Employee Director Plan, restricted stock vests one-third each year on the anniversary of the date of the grant over a three-year period.

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2014 Restricted Stock Awards

In April 2014, our compensation committee further assessed each NEO s individual performance, our overall company performance and the levels of equity compensation paid by other companies with whom we compete for executive talent. Based on this assessment, and after due consideration, our compensation committee awarded the following equity incentive awards, in the form of restricted stock, in the amounts and on the dates set forth in the tables below. As discussed in this proxy statement under *SUBSEQUENT COMPENSATION ACTIONS* , our board approved amendments to these awards on May 22, 2014 to accelerate the vesting applicable to such awards.

	Grant Date	Restricted Stock Awards(1)	Fair Value of Restricted Stock Awards on Grant Date(2)
Manuel Henriquez	04/10/2014	275,000	$ 3,792,250
	04/15/2014	160,000	$ 2,200,000
Jessica Baron	04/10/2014	20,000	$ 275,800
	04/14/2014	17,500	$ 242,025
Parag Shah	04/10/2014	60,000	$ 827,400
	04/14/2014	75,000	$ 1,037,250
Scott Bluestein	04/10/2014	25,000	$ 344,750
	04/14/2014	45,000	$ 622,350
Todd Jaquez-Fissori(3)	04/10/2014	20,000	$ 275,800
	04/14/2014	30,000	$ 414,900

(1) Pursuant to award amendments adopted by our board on May 22, 2014, these restricted stock awards vest as to one-half on the one year anniversary of the date of grant and quarterly over the succeeding 12 months.
(2) Based on the closing prices per share of our common stock of $13.79, $13.83 and $13.75 on April 10, 2014, April 14, 2014 and April 15, 2014, respectively.
(3) Mr. Fissori resigned from Hercules as of April 25, 2014.

Other Elements of Compensation; Benefits and Perquisites; Change of Control Payments

Severance

No NEO or employee of the Company has a written severance agreement.

Benefits and Perquisites

Our NEOs receive the same benefits and perquisites as other full-time employees. Our benefits program is designed to provide competitive benefits and is not based on performance. Other than the benefits described below, our NEOs do not receive any other benefits, including retirement benefits, or perquisites from Hercules. Our NEOs and other full-time employees receive general health and welfare benefits, which consist of life, long-term and short-term disability, health, dental, vision insurance benefits and the opportunity to participate in our defined contribution 401(k) plan. During 2013, our 401(k) plan provided for a match of contributions by the company for up to $17,000 per full-time employee.

Potential Payments Upon Termination or Change of Control

No NEO or employee of Hercules has a written employment agreement.

Upon specified covered transactions (as defined in the 2004 Plan), in which there is an acquiring or surviving entity, our board may provide for the assumption of some or all outstanding awards, or for the grant of new awards in substitution, by the acquirer or survivor or an affiliate of the acquirer or survivor, in each case on

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such terms and subject to such conditions as our board determines. In the absence of such an assumption or if there is no substitution, except as otherwise provided in the award, each award will become fully exercisable prior to the covered transaction on a basis that gives the holder of the award a reasonable opportunity, as determined by our board, to participate as a shareholder in the covered transaction following exercise, and the award will terminate upon consummation of the covered transaction. A covered transaction includes the following: (i) a merger or other transaction in which the company is not the surviving corporation or which results in the acquisition of all or substantially all of our then outstanding common stock by a single person or entity or by a group of persons and/or entities; (ii) a sale of substantially all of our assets; (iii) a dissolution or liquidation of Hercules; or (iv) a change in a majority of our board s composition unless approved by a majority of the directors continuing in office.

Internal Pay Equity Analysis

Our compensation program is designed with the goal of providing compensation to our NEOs that is fair, reasonable, and competitive. To achieve this goal, we believe it is important to compare compensation paid to each NEO not only with compensation in our comparative group companies, as discussed above, but also with compensation paid to each of our other NEOs. Such an internal comparison is important to ensure that compensation is equitable among our NEOs.

As part of our compensation committee s review, we made a comparison of our CEO s total compensation paid for the year ending December 31, 2013 against that paid to our other NEOs during the same year. Upon review, our compensation committee determined that our CEO s compensation relative to that of our other NEOs was justified relative to the compensation paid to our other NEOs because of his level and scope of responsibilities, expertise and performance history, and other factors deemed relevant by our compensation committee, as compared to the other NEOs. Our compensation committee also reviewed the mix of the individual elements of compensation paid to our NEOs for this period. In the course of its review, our compensation committee also considered the individual performance of each NEO and any changes in responsibilities of the NEO. Based on its review, our compensation committee determined that our CEO s total compensation comprised of base salary, annual cash bonus and short and long-term equity incentive and retention awards was properly aligned in comparison to total compensation paid to the other NEOs.

Stock Ownership Guidelines

We maintain stock ownership guidelines, which are outlined in our corporate governance guidelines, because we believe that material stock ownership by our executives plays a role in effectively aligning the interests of these employees with those of our shareholders and strongly motivates our executives to build long-term shareholder value. Pursuant to our stock ownership guidelines, each member of senior management is required to beneficially own at least two times the individual s annual salary in Hercules common stock, based on market value, within three years of joining Hercules. Our Board may make exceptions to this requirement based on particular circumstances. Each NEO has exceeded his respective guideline as of May 14, 2014.

Tax and Accounting Matters

Stock-Based Compensation. We account for stock-based compensation, including options and shares of restricted stock granted pursuant to our 2004 Equity Incentive Plan and 2006 Non-Employee Director Plan in accordance with the requirements of FASB ASC Topic 718. Under the FASB ASC Topic 718, we estimate the fair value of our option awards at the date of grant using the Black-Scholes-Merton option-pricing model, which requires the use of certain subjective assumptions. The most significant of these assumptions are our estimates on the expected term, volatility and forfeiture rates of the awards. Forfeitures are not estimated due to our limited history but are reversed in the period in which forfeiture occurs. As required under the accounting rules, we review our valuation assumptions at each grant date and, as a result, are likely to change our valuation assumptions used to value stock-based awards granted in future periods. We estimate the fair value of our restricted stock awards based on the grant date market closing price.

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Deductibility of Executive Compensation. When analyzing both total compensation and individual elements of compensation paid to our NEOs, our compensation committee considers the income tax consequences to Hercules of its compensation policies and procedures. In particular, our compensation committee considers Section 162(m) of the Internal Revenue Code, which limits the deductibility of non-performance-based compensation paid to certain of the NEOs to $1,000,000 per affected NEO. Our compensation committee intends to balance its objective of providing compensation to our NEOs that is fair, reasonable, and competitive with the company s capability to take an immediate compensation expense deduction. Our board believes that the best interests of Hercules and our shareholders are served by executive compensation programs that encourage and promote our principal compensation philosophy, enhancement of shareholder value, and permit our compensation committee to exercise discretion in the design and implementation of compensation packages. Accordingly, we may from time to time pay compensation to our NEOs that may not be fully tax deductible, including certain bonuses and restricted stock. Stock options granted under our stock plan are intended to qualify as performance-based compensation under Section 162(m) and are generally fully deductible. We will continue to review our executive compensation plans periodically to determine what changes, if any, should be made as a result of the limitation on deductibility.

Subsequent Compensation Actions

Acceleration of Vesting of Restricted Stock Awards

In April 2014, our compensation committee and board awarded the equity incentive awards detailed above in the Compensation Discussion and Analysis section of this proxy statement under *Elements of Executive Compensation Long-Term Equity Incentive Compensation 2014 Restricted Stock Awards* . These awards are referred to as the April 2014 awards.

Based on its further assessment of the market for executive talent and increased competition for the service of Hercules key employees, including our NEOs, on May 22, 2014 our board approved amendments to the April 2014 awards to accelerate the vesting schedules applicable to such awards. Pursuant to the revised vesting schedules, each April 2014 award made to Mr. Henriquez, Ms. Baron, Mr. Shah and Mr. Bluestein will vest as to one-half of the shares on the one year anniversary of the date of grant and quarterly over the succeeding 12 months. We have amended the Compensation Discussion and Analysis section of this proxy statement accordingly, and we have updated the disclosures and the footnotes to the table included under *Elements of Executive Compensation Long-Term Equity Incentive Compensation 2014 Restricted Stock Awards* to reflect the revised vesting terms for the April 2014 awards.

NEO Base Salary Increases

In connection with his promotion to chief investment officer, our compensation committee approved an increase in annual base salary for Mr. Bluestein. Also, our compensation committee approved a three percent (3%) increase in base salaries for each of the other NEOs listed below. The following table summarizes these salary increases.

	Fiscal Year 2013 Base Salary	Fiscal Year 2014 Base Salary
Manuel Henriquez	$ 757,050	$ 779,762
Jessica Baron	$ 285,000	$ 293,550
Scott Bluestein	$ 300,000	$ 420,000

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Retention Bonus Programs

On May 22, 2014, our compensation committee and board of directors approved a key employee retention program, which also included retention bonus payments for the NEOs listed below. Subject to their continued employment, the NEOs listed below will receive, subject to our compensation committee s authority to terminate or amend the retention bonus program, in its sole discretion, the following additional cash bonuses during fiscal 2014 and 2015.

	October 2014 Retention Bonus Payment Amount	April 2015 Retention Bonus Payment Amount
Manuel Henriquez	$ 136,458	$ 136,458
Jessica Baron	$ 51,371	$ 51,371
Scott Bluestein	$ 73,500	$ 73,500

Risk Assessment of the Compensation Programs

Our board believes that risks arising from our compensation policies and practices for our employees are not reasonably likely to have a material adverse effect on Hercules. We have designed our compensation programs, including our incentive compensation plans, with specific features to address potential risks while rewarding employees for achieving long-term financial and strategic objectives through prudent business judgment and appropriate risk taking. The Compensation Discussion and Analysis section describes generally our compensation policies and practices that are applicable for executive and management employees. We use common variable compensation designs across all employees of Hercules with a significant focus on individual performance and contribution along with achievement of certain corporate objectives as generally described in the foregoing Compensation Discussion and Analysis.

In view of the current economic and financial environment, our compensation committee and our board reviewed our compensation programs to assess whether any aspect of the programs would encourage any of our employees to take any unnecessary or inappropriate risks that could threaten the value of Hercules. Our compensation committee has designed our compensation programs to reward our employees for achieving annual profitability and long-term increase in stockholder value.

Our board recognizes that the pursuit of corporate objectives possibly leads to behaviors that could weaken the link between pay and performance, and, therefore, the correlation between the compensation delivered to employees and the return realized by shareholders. Accordingly, our compensation committee has designed our executive compensation program to mitigate these possibilities and to ensure that our compensation practices and decisions are consistent with our risk profile. These features include the following:

- bonus payouts and short-term equity incentive awards that are not based solely on corporate performance objectives, but also require achievement of individual performance objectives,

- the financial opportunity in our long-term equity incentive program that is best realized through long-term appreciation of our stock price, which mitigates excessive short-term risk-taking,

- annual cash bonuses that are paid in one installment after the end of the fiscal year to which the bonus payout relates, and

- final decision making by our compensation committee and our board on all awards.

Additionally, our compensation committee considered an assessment of compensation-related risks for all of our employees. Based on this assessment, the committee concluded that our compensation programs do not create risks that are reasonably likely to have a material adverse effect on Hercules. In making this evaluation, our compensation committee reviewed the key design elements of our compensation programs in relation to industry best practices, as well as the means by which any potential risks may be mitigated, such as through our internal controls and oversight by management and our board. In addition, management completed an inventory of incentive programs below the executive level and reviewed the design of these incentives and concluded that such incentive programs do not encourage excessive risk-taking.

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Executive Compensation Tables

Summary Compensation Table

The following table provides information concerning the compensation earned by our NEOs for the fiscal years ended December 31, 2013, December 31, 2012 and December 31, 2011.

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)(2)	Stock Awards ($)(3)	All Other Compensation ($)(4)	Total ($)
Manuel Henriquez	2013	$ 757,050	$ 1,136,000	$ 3,819,994	$ 639,950	$ 6,352,994
Chairman & Chief Executive Officer	2012	$ 735,000	$ 880,000	$ 2,648,450	$ 439,683	$ 4,703,133
	2011	$ 735,000	$ 825,000	$ 1,395,000	$ 288,834	$ 3,243,834
Jessica Baron	2013	$ 285,000	$ 287,442	$ 410,004	$ 106,821	$ 1,089,267
Chief Financial Officer	2012	$ 235,000	$ 180,000	$ 653,600	$ 69,720	$ 1,138,320
	2011	$ 175,000	$ 85,000	$ 139,500	$ 19,701	$ 419,201
Parag Shah	2013	$ 347,162	$ 350,000	$ 845,003	$ 225,899	$ 1,768,064
Senior Managing Director and	2012	$ 337,050	$ 195,000	$ 1,140,455	$ 212,965	$ 1,885,470
Life Science Group Head	2011	$ 337,050	$ 275,000	$ 697,500	$ 160,652	$ 1,470,202
Scott Bluestein	2013	$ 300,000	$ 360,000	$ 699,995	$ 107,645	$ 1,467,640
Chief Credit Officer	2012	$ 270,000	$ 185,000	$ 378,350	$ 45,075	$ 878,425
	2011	$ 250,000	$ 135,000	$ 83,700	$ 7,033	$ 475,733
Todd Jaquez-Fissori	2013	$ 260,000	$ 312,000	$ 293,755	$ 80,056	$ 945,811
Former Senior Managing Director and Energy	2012	$ 225,000	$ 225,000	$ 439,450	$ 44,550	$ 934,000
Technology Group Head(5)	2011	$ 175,000	$ 145,000	$ 111,600	$ 6,600	$ 438,200

(1) Salary column amounts represent base salary compensation received by each NEO for the listed fiscal year.
(2) Bonus column amounts represent the annual cash bonus earned during the fiscal year and awarded and paid out during the first quarter of the following fiscal year. The bonus amount for Ms. Baron includes a one-time bonus payment of $16,442, which was awarded to her on September 12, 2013 in light of her strong continued performance during 2013.
(3) The amounts reflect the aggregate grant date fair value of restricted stock awards made to our NEOs during the applicable year computed in accordance with FASB ASC Topic 718. The grant date fair value of each restricted stock award is measured based on the closing price of our common stock on the date of grant.
(4) Represents matching contributions under our 401(k) plan of (a) $17,000 in 2013 to Messrs. Henriquez, Shah, Bluestein and Jacquez-Fissori and Ms. Baron, (b) $6,500 in 2012 to Messrs. Henriquez, Shah, Bluestein and Jacquez-Fissori and Ms. Baron, (c) $6,500 in 2011 to Messrs. Henriquez, Shah and Ms. Baron, and (d) $2,083 to Mr. Bluestein in 2011. Dividends to Messrs. Henriquez, Shah, Bluestein, Jacquez-Fissori, and Ms. Baron in the amount of $622,950, $208,899, $90,645, $63,056 and $89,821, respectively, were paid on unvested restricted stock awards during 2013. Dividends to Messrs. Henriquez, Shah, Bluestein, Jacquez-Fissori, and Ms. Baron in the amount of $433,183, $206,465, $38,575, $38,050 and $63,220, respectively, were paid on unvested restricted stock awards during 2012. Dividends to Messrs. Henriquez, Shah, Bluestein, Jaquez-Fissori, and Ms. Baron in the amount of $282,334, $154,152, $4,950, $6,600 and $13,201, respectively, were paid on unvested restricted stock awards during 2011. NEOs did not receive any other perquisites or personal benefits from Hercules.
(5) Mr. Fissori resigned from Hercules as of April 25, 2014.

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Grants of Plan Based Awards

The following table sets forth certain information with respect to the restricted stock awards granted during the fiscal year ended December 31, 2013 to each of our NEOs. No stock options were awarded to our NEOs during the fiscal year ended December 31, 2013.

Name and Principal Position	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units[1]	All Other Option Awards: Number of Securities Underlying Options	Grant Date Fair Value of Stock and Option Awards[2]
Short Term Awards				
Manuel Henriquez *Chairman and Chief Executive Officer*	03/04/2013	103,774		$ 1,320,005
Jessica Baron[3] *Chief Financial Officer*	03/04/2013	14,151		$ 180,001
Parag Shah *Senior Managing Director and Life Sciences Group Head*	03/04/2013	15,330		$ 194,998
Scott Bluestein *Chief Credit Officer*	03/04/2013	15,723		$ 199,997
Todd Jaquez-Fissori[4] *Senior Managing Director and Clean Technology Group Head*	03/04/2013	13,267		$ 168,756
Long Term Awards				
Manuel Henriquez *Chairman and Chief Executive Officer*	03/04/2013	196,540		$ 2,499,989
Jessica Baron[3] *Chief Financial Officer*	03/04/2013	18,082		$ 230,003
Parag Shah *Senior Managing Director and Life Sciences Group Head*	03/04/2013	51,101		$ 650,005
Scott Bluestein *Chief Credit Officer*	03/04/2013	39,308		$ 499,998
Todd Jaquez-Fissori[4] *Former Senior Managing Director and Clean Technology Group Head*	03/04/2013	9,827		$ 124,999

(1) Restricted stock awards vest based on two vesting schedules: short-term awards vest one-half on the one year anniversary of the date of the grant and quarterly over the succeeding 12 months, and long-term awards vest one-fourth on the one year anniversary of the date of grant and quarterly over the succeeding 36 months. When payable, dividends are paid on a current basis on the unvested shares.

(2) The amounts reflect the aggregate grant date fair value of restricted stock awards made to our NEOs during 2013 computed in accordance with FASB ASC Topic 718.

(3) Effective March 27, 2012, the Board promoted Ms. Baron from the Company s Interim Chief Financial Officer to the Company s Chief Financial Officer. In connection with such promotion. Ms. Baron was awarded 25,000 shares of restricted common stock.

(4) On July 17, 2012, the Board appointed Mr. Jaquez-Fissori to Senior Managing Director and Clean Technology Group Head. In connection with such appointment, Mr. Jaquez-Fissori was awarded 15,000 shares of restricted common stock.

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Outstanding Equity Awards at Fiscal Year End

The following table shows outstanding stock option awards classified as exercisable and unexercisable and stock awards as of December 31, 2013 for each of the NEOs:

	Option Awards				Stock Awards	
Name and Principal Position	**Number of Securities Underlying Unexercised Options Exercisable**	**Number of Securities Underlying Unexercised Options Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested**	**Market Value of Shares or Units of Stock That Have Not Vested(1)**
Manuel Henriquez					14,063	$ 230,633
Chairman and Chief Executive Officer					39,063	$ 640,633
					137,813	$ 2,260,133
					196,540	$ 3,223,256
					103,774	$ 1,701,894
Jessica Baron					344	$ 5,642
Chief Financial Officer					125	$ 2,050
					3,907	$ 64,075
					19,688	$ 322,883
					14,063	$ 230,633
					18,082	$ 296,545
					14,151	$ 232,076
Parag Shah					1,563	$ 25,633
Senior Managing Director and					6,563	$ 107,633
Life Science Group Head					19,532	$ 320,325
					59,344	$ 973,242
					15,330	$ 251,412
					51,101	$ 838,056
Scott Bluestein	95,539		$ 9.90	11/23/2017	2,344	$ 38,442
Chief Credit Officer					19,688	$ 322,883
					15,723	$ 257,857
					39,308	$ 644,651
Todd Jaquez-Fissori					3,125	$ 51,250
Former Senior Managing Director and Clean					14,063	$ 230,633
Technology Group Head					9,688	$ 158,883
					13,267	$ 217,579
					9,827	$ 161,163

(1) Market value is computed by multiplying the closing market price of the Company s stock at December 31, 2013 by the number of shares.

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Options Exercised and Stock Vested

The following table sets forth certain information with respect to options exercised and the shares of restricted stock that vested during the fiscal year ended December 31, 2013 to each of our NEOs.

	Option Awards		Stock Awards	
Name and Principal Position	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
Current NEOs				
Manuel Henriquez *Chairman & Chief Executive Officer*	798,116	$ 1,402,859	200,938	$ 2,731,718
Jessica Baron *Chief Financial Officer*	38,759	$ 60,468	31,249	$ 419,694
Parag Shah *Senior Managing Director and Life Science Group Head*	394,055	$ 1,319,604	97,094	$ 1,320,086
Scott Bluestein *Chief Credit Officer*	29,461	$ 114,723	17,187	$ 228,931
Todd Jaquez-Fissori *Former Senior Managing Director and Clean Technology Group Head*			18,749	$ 257,027

Compensation Committee Interlocks and Insider Participation

All members of our compensation committee are independent directors and none of the members are present or past employees of Hercules. No member of our compensation committee: (i) has had any relationship with Hercules requiring disclosure under Item 404 of Regulation S-K under the Securities Exchange Act of 1934; or (ii) is an executive officer of another entity, at which one of our executive officers serves on our board.

2004 Equity Incentive Plan

Our Board and our stockholders have approved the 2004 Equity Incentive Plan for the purpose of attracting and retaining the services of executive officers, directors and other key employees. Under the 2004 Equity Incentive Plan our Compensation Committee may award incentive stock options (ISOs), within the meaning of Section 422 of the Code, and non-qualified stock options to employees and employee directors. The following is a summary of the material features of the 2004 Equity Incentive Plan.

Under the 2004 Equity Incentive Plan, we have authorized for issuance up to 8,000,000 shares of common stock of which 792,425 shares were available for issuance as of May 14, 2014. Participants in the 2004 Equity Incentive Plan may receive awards of options to purchase our common stock and/or restricted shares, as determined by our Compensation Committee. Options granted under the 2004 Equity Incentive Plan generally may be exercised for a period of no more than ten years from the date of grant unless the option agreement provides for an earlier expiration. Unless sooner terminated by our Board, the 2004 Equity Incentive Plan will terminate on the tenth anniversary of the date it was last approved by our stockholders. Such approval was last given by our stockholders on June 1, 2011. The 2004 Equity Incentive Plan provides that all awards granted under the plan are subject to modification as required to ensure that such awards do not conflict with the requirements of the 1940 Act applicable to us.

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Options granted under the 2004 Equity Incentive Plan will entitle the optionee, upon exercise, to purchase shares of common stock from us at a specified exercise price per share. ISOs must have a per share exercise price of no less than the fair market value of a share of stock on the date of the grant or, if the optionee owns or is treated as owning (under Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of our stock, 110% of the fair market value of a share of stock on the date of the grant. Nonstatutory stock options granted under the 2004 Equity Incentive Plan must have a per share exercise price of no less than the fair market value of a share of stock on the date of the grant. Options will not be transferable other than by laws of descent and distribution, or in the case of nonstatutory stock options, by gift, and will generally be exercisable during an optionee s lifetime only by the optionee.

Under the 2004 Equity Incentive Plan, we are permitted to issue shares of restricted stock to all key employees of the Company and its affiliates consistent with such terms and conditions as the Board shall deem appropriate. Our Board determines the time or times at which such shares of restricted stock will become exercisable and the terms on which such shares will remain exercisable. Any shares of restricted stock for which forfeiture restrictions have not vested at the point at which the participant terminates his employment will terminate immediately and such shares will be returned to the Company and will be available for future awards under this plan.

Our Board administers the 2004 Equity Incentive Plan and has the authority, subject to the provisions of the 2004 Equity Incentive Plan, to determine who will receive awards under the 2004 Equity Incentive Plan and the terms of such awards. The Board has the authority to adjust the number of shares available for awards, the number of shares subject to outstanding awards and the exercise price for awards following the occurrence of events such as stock splits, dividends, distributions and recapitalizations. The exercise price of an option may be paid in the form of shares of stock that are already owned by such option holder.

Upon specified covered transactions (as defined in the 2004 Equity Incentive Plan), all outstanding awards under the 2004 Equity Incentive Plan may either be assumed or substituted for by the surviving entity. If the surviving entity does not assume or substitute similar awards, the awards held by the participants will be accelerated in full and then terminated to the extent not exercised prior to the covered transaction.

2006 Non-Employee Director Plan

Our Board and our stockholders have approved the 2006 Non-Employee Director Plan. Under current SEC rules and regulations applicable to BDCs absent exemptive relief, a BDC may not grant options or shares of restricted stock to non-employee directors. On February 15, 2007, we received exemptive relief from the SEC to permit us to grant options to non-employee directors as a portion of their compensation for service on our Board. On May 23, 2007, we received exemptive relief from the SEC to permit us to grant shares of restricted stock to non-employee directors as a portion of their compensation for service on our Board. The following is a summary of the material features of the 2006 Non-Employee Director Plan.

The Company has instituted the 2006 Non-Employee Director Plan for the purpose of advancing the interests of the Company by providing for the grant of awards under the 2006 Non-Employee Director Plan to eligible non-employee directors. Under the 2006 Non-Employee Director Plan, we have authorized for issuance up to 1,000,000 shares of common stock of which 853,332 shares were available for issuance as of May 14, 2014. The 2006 Non-Employee Director Plan authorizes the issuance to non-employee directors of non-statutory stock options (NSOs) to purchase shares of common stock at a specified exercise price per share and/or restricted stock. NSOs granted under the 2006 Non-Employee Director Plan will have a per share exercise price of no less than the current market value of a share of stock as determined in good faith by the Board on the date of the grant. The amount of the options that may be granted are limited by the terms of the 2006 Non-Employee Director Plan, which prohibits any grant that would cause the Company to be in violation of Section 61(a)(3) of the 1940 Act.

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Under the 2006 Non-Employee Director Plan, non-employee directors will each receive an initial grant of an option to purchase 10,000 shares of stock upon initial election to such position. The options granted will vest over two years, in equal installments on each of the first two anniversaries of the date of grant, provided that the non-employee director remains in service on such dates. In addition, each non-employee director shall automatically be granted an option to purchase 15,000 shares of stock on the date of such non-employee director s re-election to the Board and such grant will vest over three years, in equal installments on each of the first three anniversaries of the date of grant, provided that the non-employee director remains in service on such dates. The Compensation Committee has, subject to SEC approval, the authority to determine from time to time which of the persons eligible under the 2006 Non-Employee Director Plan shall be granted awards; when and how each award shall be granted, including the time or times when a person shall be permitted to exercise an award; and the number of shares of stock with respect to which an award shall be granted to such person. The exercise price of options granted under the 2006 Non-Employee Director Plan is set at the closing price of the Company s market price on the NYSE as of the date of grant and will not be adjusted unless the Company receives an exemptive order from the SEC or written confirmation from the staff of the SEC that the Company may do so (except for adjustments resulting from changes in the Company s capital structure, such as stock dividends, stock splits and reverse stock splits).

Unless sooner terminated by the Board, the 2006 Non-Employee Director Plan will terminate on June 21, 2017 and no additional awards may be made under the 2006 Non-Employee Director Plan after that date. The 2006 Non-Employee Director Plan provides that all awards granted under the 2006 Non-Employee Director Plan are subject to modification as required to ensure that such awards do not conflict with the requirements of the 1940 Act. The Compensation Committee will determine the period during which any options granted under the 2006 Non-Employee Director Plan shall remain exercisable, provided that no option will be exercisable after the expiration of ten years from the date on which it was granted. Options granted under the 2006 Non-Employee Director Plan are not transferable other than by will or the laws of descent and distribution, or by gift, and will generally be exercisable during a non-employee director s lifetime only by such non-employee director. In general, any portion of any options that are not then exercisable will terminate upon the termination of the non-employee director s services to the Company. Generally, any portion of any options that are exercisable at the time of the termination of the non-employee director s services to the Company will remain exercisable for the lesser of (i) a period of three months (or one year if the non-employee director s services to the Company terminated by reason of the non-employee director s death) or (ii) the period ending on the latest date on which such options could have been exercised had the non-employee director s services to the Company not terminated. In addition, if the Board determines that a non-employee director s service to the Company terminated for reasons that cast such discredit on the non-employee director as to justify immediate termination of the non-employee director s options, then all options then held by the non-employee director will immediately terminate.

Under the 2006 Non-Employee Director Plan, we also are permitted to issue shares of restricted stock to our non-employee directors. Upon initial election to such position, non-employee directors will automatically be granted 3,333 shares of restricted stock. The forfeiture restrictions for such initial shares of restricted stock will vest as to one-half of such shares on the first anniversary of the date of grant and as to an additional one-half of the restricted stock on the second anniversary of the date of grant. In addition, each non-employee director shall automatically be granted 5,000 shares of restricted stock on the date of such non-employee director s re-election to the Board and the forfeiture restrictions on such shares will vest as to one-third of such shares on the anniversary of such grant over three years, provided that the non-employee director remains in service on such dates.

The Compensation Committee administers the 2006 Non-Employee Director Plan. If there is a change in the capital structure of the Company by reason of a stock dividend, stock split or combination of shares (including a reverse stock split), recapitalization or other change in the Company s capital structure, the Board will make appropriate adjustments to the number and class of shares of stock subject to the 2006 Non-Employee Director Plan and each option outstanding under it. In the event of a consolidation, merger, stock sale, a sale of all or

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substantially all of the Company s assets, a dissolution or liquidation of the Company or other similar events (a Covered Transaction), the Board may provide for the assumption of some or all outstanding options or for the grant of new substitute options by the acquirer or survivor. If no such assumption or substitution occurs, all outstanding options will become exercisable prior to the Covered Transaction and will terminate upon consummation of the Covered Transaction.

The Board may, subject to SEC prior approval, at any time or times amend the 2006 Non-Employee Director Plan or any outstanding award for any purpose which may at the time be permitted by law, and may at any time terminate the 2006 Non-Employee Director Plan as to any future grants of awards; provided, that except as otherwise expressly provided in the 2006 Non-Employee Director Plan the Board may not, without the participant s consent, alter the terms of an award so as to affect adversely the participant s rights under the award, unless the Board expressly reserved the right to do so at the time of the grant of the award.

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CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

The following table sets forth, as of May 14, 2014, the beneficial ownership of each current director, each nominee for director, the Company s executive officers, each person known to us to beneficially own 5% or more of the outstanding shares of our common stock, and the executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (the SEC) and includes voting or investment power with respect to the securities. Common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of May 14, 2014 are deemed to be outstanding and beneficially owned by the person holding such options or warrants. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Percentage of ownership is based on 62,605,639 shares of common stock outstanding as of May 14, 2014.

Unless otherwise indicated, to our knowledge, each stockholder listed below has sole voting and investment power with respect to the shares beneficially owned by the stockholder, except to the extent authority is shared by spouses under applicable law, and maintains an address of c/o Company. Our address is 400 Hamilton Avenue, Suite 310, Palo Alto, California 94301.

The Company s directors are divided into two groups interested directors and independent directors. Interested directors are interested persons as defined in Section 2(a)(19) of the 1940 Act.

Name and Address of Beneficial Owner	Number of Shares Owned Beneficially(1)	Percentage of Class
Interested Director		
Manuel A. Henriquez(2)	2,099,373	3.4%
Independent Directors		
Robert P. Badavas(3)	135,399	*
Joseph W. Chow(4)	129,325	*
Allyn C. Woodward, Jr.(5)	228,611	*
Named Executive Officers		
Scott Bluestein(6)	279,347	*
Parag Shah(7)	462,465	*
Jessica Baron(8)	141,736	*
Executive officers and directors as a group(9)	3,480,256	5.6%

* Less than 1%.

(1) Beneficial ownership has been determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934.

(2) Includes 775,230 shares of restricted stock, and 54,348 shares of common stock held in trusts for the benefit of Mr. Henriquez s children and for which his spouse serves as trustee. Mr. Henriquez disclaims beneficial ownership of such shares held in trust except to the extent of his pecuniary interest therein.

(3) Includes 5,000 shares of common stock that can be acquired upon the exercise of outstanding options. Includes 1,666 shares of restricted common stock.

(4) Includes 5,000 shares of common stock that can be acquired upon the exercise of outstanding options. Includes 1,666 shares of restricted common stock.

(5) Includes 5,000 shares of common stock that can be acquired upon the exercise of outstanding options. Includes 3,333 shares of restricted common stock.

(6) Includes 95,539 shares of common stock that can be acquired upon the exercise of outstanding options and 125,104 shares of restricted common stock.

(7) Includes 243,669 shares of restricted common stock.

(8) Includes 125,104 shares of restricted common stock.

(9) Includes 110,539 shares of common stock that can be acquired upon the exercise of outstanding options and 1,243,693 shares of restricted common stock.

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The following table sets forth as of May 14, 2014, the dollar range of our securities owned by our directors and portfolio management employees.

Name	Dollar Range of Equity Securities in the Company[1]
Independent Directors:	
Robert P. Badavas	over $100,000
Joseph W. Chow	over $100,000
Allyn C. Woodward, Jr.	over $100,000
Interested Director/Portfolio Management Employee:	
Manuel A. Henriquez	over $100,000
Portfolio Management Employees:	
Scott Bluestein	over $100,000
Parag I. Shah	over $100,000
Jessica Baron	over $100,000

(1) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Securities Exchange Act of 1934, as amended.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In the ordinary course of business, we enter into transactions with portfolio companies that may be considered related party transactions. In order to ensure that we do not engage in any prohibited transactions with any persons affiliated with us, we have implemented certain policies and procedures whereby our executive officers screen each of our transactions for any possible affiliations, close or remote, between the proposed portfolio investment, us, companies controlled by us and our employees and directors.

The Company will not enter into any agreements unless and until we are satisfied that no affiliations prohibited by the 1940 Act exist or, if such affiliations exist, the Company has taken appropriate actions to seek Board review and approval or exemptive relief for such transaction.

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CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of certain material U.S. federal income tax considerations relating to our qualification and taxation as a RIC and the acquisition, ownership and disposition of our preferred stock or common stock, but does not purport to be a complete description of the income tax considerations relating thereto. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of investors subject to special treatment under U.S. federal income tax laws, including investors subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, financial institutions, traders in securities that elect to use the mark-to-market method of accounting for securities holdings, persons subject to the alternative minimum tax, United States expatriates, United States persons with a functional currency other than the U.S. dollar, persons that hold notes as part of an integrated investment (including a straddle), controlled foreign corporations, passive foreign investment companies, or corporations that accumulate earnings to avoid United States federal income tax. This summary is limited to beneficial owners of our preferred stock or common stock that will hold our preferred stock or common stock as a capital assets (within the meaning of the Code). The discussion is based upon the Code, temporary and final U.S. Treasury regulations, and administrative and judicial interpretations, each as of the date hereof and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service (the IRS) regarding our preferred stock or common stock. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

This summary does not discuss the consequences of an investment in our subscription rights, debt securities or warrants representing rights to purchase shares of our preferred stock, common stock or debt securities or as units comprised of combinations of securities. The U.S. federal income tax consequences of such an investment will be discussed in the relevant prospectus supplement. In addition, we may issue preferred stock with terms resulting in U.S. federal income taxation of beneficial owners with respect to such preferred stock in a manner different from as set forth in this summary. In such instances, such differences will be discussed in a relevant prospectus supplement.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of our preferred stock or common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. Investors treated as a partnership for U.S. federal income tax purposes (or investors that are partners in such a partnership), are encouraged to consult with their own tax advisors with respect to the tax consequences relating to the purchase, ownership and disposition of our preferred stock or common stock.

Tax matters are very complicated and the tax consequences to an investor of an investment in our securities will depend on the facts of their particular situation. We encourage investors to consult their own tax advisors regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in tax laws.

Election to be Taxed as a RIC

Effective beginning on January 1, 2006 we met the criteria specified below to qualify as a RIC, and elected to be treated as a RIC under Subchapter M of the Code with the filing of our federal income tax return for 2006. As a RIC, we generally will not have to pay corporate taxes on any income we distribute to our stockholders as dividends, which allows us to reduce or eliminate our corporate level tax. On December 31, 2005, immediately before the effective date of our RIC election, we held assets with built-in gain, which are assets whose fair market value as of the effective date of the election exceeded their tax basis as of such date. We elected to recognize all of our net built-in gains at the time of the conversion and paid tax on the built-in gain with the filing of our 2005 federal income tax return. In making this election, we marked our portfolio to market at the time of our RIC election and paid approximately $294,000 in tax on the resulting gains.

Taxation as a Regulated Investment Company

For any taxable year in which we:

- qualify as a RIC; and
- distribute at least 90% of our net ordinary income and realized net short-term gains in excess of realized net long-term capital losses, if any (the Annual Distribution Requirement);

we generally will not be subject to federal income tax on the portion of our investment company taxable income and net capital gain (*i.e.*, net realized long-term capital gains in excess of net realized short-term capital losses) that we distribute (or are deemed to distribute) to stockholders with respect to that year. As described above, we made the election to recognize built-in gains as of the effective date of our election to be treated as a RIC and therefore will not be subject to built-in gains tax when we sell those assets. However, if we subsequently acquire built-in gain assets from a C corporation in a carryover basis transaction, then we may be subject to tax on the gains recognized by us on dispositions of such assets unless we make a special election to pay corporate-level tax on such built-in gain at the time the assets are acquired. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gains not distributed (or deemed distributed) to our stockholders.

In order to qualify as a RIC for federal income tax purposes and obtain the tax benefits of RIC status, in addition to satisfying the Annual Distribution Requirement, we must, among other things:

- have in effect at all times during each taxable year an election to be regulated as business development company under the 1940 Act;
- derive in each taxable year at least 90% of our gross income from (a) dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities, or other income derived with respect to our business of investing in such stock or securities and (b) net income derived from an interest in a qualified publicly traded partnership (the 90% Income Test); and
- diversify our holdings so that at the end of each quarter of the taxable year:
  - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of such issuer; and
  - no more than 25% of the value of our assets is invested in (i) securities (other than U.S. government securities or securities of other RICs) of one issuer, (ii) securities of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or (iii) securities of one or more qualified publicly traded partnerships (the Diversification Tests).

Qualified earnings may exclude such income as management fees received in connection with our SBIC or other potential outside managed funds and certain other fees.

Under applicable Treasury regulations and certain private rulings issued by the Internal Revenue Service, RICs are permitted to treat certain distributions payable in up to 80% in their stock, as taxable dividends that will satisfy their annual distribution obligations for federal income tax and excise tax purposes provided that shareholders have the opportunity to elect to receive the distribution in cash. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income (or as long-term capital gain to the extent such distribution is properly designated as a capital gain dividend) to the extent of our current and accumulated earnings and profits for United States federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, then such sales may put downward pressure on the trading price of our stock. We may in the future determine to distribute taxable dividends that are payable in part in our common stock.

As a RIC, we will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the 1-year period ending October 31 in that calendar year and (3) any income recognized, but not distributed, in preceding years and on which we paid no federal income tax (the Excise Tax Avoidance Requirements). We will not be subject to excise taxes on amounts on which we are required to pay corporate income tax (such as retained net capital gains). Depending on the level of taxable income earned in a tax year, we may choose to carry over taxable income in excess of current year distributions from such taxable income into the next tax year and pay a 4% excise tax on such income, as required. The maximum amount of excess taxable income that may be carried over for distribution in the next year under the Code is the total amount of dividends paid in the following year, subject to certain declaration and payment guidelines. To the extent we choose to carry over taxable income into the next tax year, dividends declared and paid by us in a year may differ from taxable income for that year as such dividends may include the distribution of current year taxable income, the distribution of prior year taxable income carried over into and distributed in the current year, or returns of capital.

We may be required to recognize taxable income in circumstances in which we do not receive a corresponding payment in cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing interest rates or debt instruments that were issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. Because any original issue discount accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement, even though we will not have received any corresponding cash amount.

Gain or loss realized by us from the sale or exchange of warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant.

We are authorized to borrow funds and to sell assets in order to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement (collectively, the Distribution Requirements). However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain asset coverage tests are met. See Regulation Senior Securities; Coverage Ratio. We may be restricted from making distributions under the terms of our debt obligations themselves unless certain conditions are satisfied. Moreover, our ability to dispose of assets to meet the Distribution Requirements may be limited by (1) the illiquid nature of our portfolio, or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Distribution Requirements, we may make such dispositions at times that, from an investment standpoint, are not advantageous. If we are prohibited from making distributions or are unable to obtain cash from other sources to make the distributions, we may fail to qualify as a RIC, which would result in us becoming subject to corporate-level federal income tax.

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In addition, we will be partially dependent on our SBIC subsidiaries for cash distributions to enable us to meet the RIC Distribution Requirements. Our SBIC subsidiaries may be limited by the Small Business Investment Act of 1958, and SBA regulations governing SBICs, from making certain distributions to us that may be necessary to maintain our status as a RIC. We may have to request a waiver of the SBA s restrictions for our SBIC subsidiaries to make certain distributions to maintain our RIC status. We cannot assure you that the SBA will grant such waiver. If our SBIC subsidiaries are unable to obtain a waiver, compliance with the SBA regulations may cause us to fail to qualify as a RIC, which would result in us becoming subject to corporate-level federal income tax.

Any transactions in options, futures contracts, constructive sales, hedging, straddle, conversion or similar transactions, and forward contracts will be subject to special tax rules, the effect of which may be to accelerate income to us, defer losses, cause adjustments to the holding periods of our investments, convert long-term capital gains into short-term capital gains, convert short-term capital losses into long-term capital losses or have other tax consequences. These rules could affect the amount, timing and character of distributions to stockholders. We do not currently intend to engage in these types of transactions.

A RIC is limited in its ability to deduct expenses in excess of its investment company taxable income (which is, generally, ordinary income plus net realized short-term capital gains in excess of net realized long-term capital losses). If our expenses in a given year exceed gross taxable income (e.g., as the result of large amounts of equity-based compensation), we would experience a net operating loss for that year. However, a RIC is not permitted to carry forward net operating losses to subsequent years and such net operating losses do not pass through to the RIC s stockholders. In addition, expenses can be used only to offset investment company taxable income, not net capital gain. A RIC may not use any net capital losses (that is, realized capital losses in excess of realized capital gains) to offset the RIC s investment company taxable income, but may carry forward such losses, and use them to offset capital gains indefinitely. Due to these limits on the deductibility of expenses, and net capital losses, we may for tax purposes have aggregate taxable income for several years that we are required to distribute and that is taxable to our stockholders even if such income is greater than the aggregate net income we actually earned during those years. Such required distributions may be made from our cash assets or by liquidation of investments, if necessary. We may realize gains or losses from such liquidations. In the event we realize net capital gains from such transactions, you may receive a larger capital gain distribution than you would have received in the absence of such transactions.

Investment income received from sources within foreign countries, or capital gains earned by investing in securities of foreign issuers, may be subject to foreign income taxes withheld at the source. In this regard, withholding tax rates in countries with which the United States does not have a tax treaty are often as high as 35% or more. The United States has entered into tax treaties with many foreign countries that may entitle us to a reduced rate of tax or exemption from tax on this related income and gains. The effective rate of foreign tax cannot be determined at this time since the amount of our assets to be invested within various countries is not now known. We do not anticipate being eligible for the special election that allows a RIC to treat foreign income taxes paid by such RIC as paid by its shareholders.

If we acquire stock in certain foreign corporations that receive at least 75% of their annual gross income from passive sources (such as interest, dividends, rents, royalties or capital gain) or hold at least 50% of their total assets in investments producing such passive income (passive foreign investment companies), We could be subject to federal income tax and additional interest charges on excess distributions received from such companies or gain from the sale of stock in such companies, even if all income or gain actually received by us is timely distributed to our shareholders. We would not be able to pass through to our shareholders any credit or deduction for such a tax. Certain elections may, if available, ameliorate these adverse tax consequences, but any such election requires us to recognize taxable income or gain without the concurrent receipt of cash. We intend to limit and/or manage our holdings in passive foreign investment companies to minimize our tax liability. Foreign exchange gains and losses realized by us in connection with certain transactions involving non-dollar debt securities, certain foreign currency futures contracts, foreign currency option contracts, foreign currency forward contracts, foreign currencies, or payables or receivables denominated in a foreign currency are subject to Code

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provisions that generally treat such gains and losses as ordinary income and losses and may affect the amount, timing and character of distributions to our stockholders. Any such transactions that are not directly related to our investment in securities (possibly including speculative currency positions or currency derivatives not used for hedging purposes) could, under future Treasury regulations, produce income not among the types of qualifying income from which a RIC must derive at least 90% of its annual gross income.

Taxation of U.S. Stockholders

A U.S. stockholder generally is a beneficial owner of shares of our preferred stock or common stock who is for United States federal income tax purposes:

- a citizen or individual resident of the United States including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence test under Section 7701(b) of the Code;

- a corporation or other entity taxable as a corporation, for United States federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof;

- a trust if (1) a court in the United States has primary supervision over its administration and one or more U.S. persons has the authority to control all substantial decisions of such trust or (2) if such trust validly elects to be treated as a U.S. person for federal income tax purposes; or

- an estate, the income of which is subject to United States federal income taxation regardless of its source.

For federal income tax purposes, distributions by us generally are taxable to U.S. stockholders as ordinary income or capital gains. Distributions of our investment company taxable income (which is, generally, our ordinary income plus net realized short-term capital gains in excess of net realized long-term capital losses) will be taxable as ordinary income to U.S. stockholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional preferred stock or common stock. To the extent such distributions paid by us through 2012 (unless extended by legislation) to non-corporate U.S. stockholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions may be reported by us as qualified dividend income eligible to be taxed in the hands of non-corporate stockholders at the rates applicable to long-term capital gains, provided certain holding period and other requirements are met at both the stockholder and company levels. In this regard, it is anticipated that distributions paid by us generally will not be attributable to dividends and, therefore, generally will not be qualified dividend income. Distributions of our net capital gains (which is generally our realized net long-term capital gains in excess of realized net short-term capital losses) properly reported by us as capital gain dividends will be taxable to a U.S. stockholder as long-term capital gains (currently at a maximum rate of 20%, in the case of individuals, trusts or estates), regardless of the U.S. stockholder s holding period for his, her or its preferred stock or common stock and regardless of whether paid in cash or reinvested in additional preferred stock or common stock. Distributions in excess of our current and accumulated earnings and profits first will reduce a U.S. stockholder s adjusted tax basis in such stockholder s preferred stock or common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. stockholder.

We currently intend to retain some or all of our realized net long-term capital gains in excess of realized net short-term capital losses, but to designate the retained net capital gain as a deemed distribution. In that case, among other consequences, we will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a tax credit equal to his, her or its allocable share of the tax paid thereon by us. Since we expect to pay tax on any retained net capital gains at our regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by non-corporate stockholders on long-term capital gains, the amount of tax that non-corporate stockholders will be treated as having paid and for

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which they will receive a credit will exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. stockholder s other federal income tax obligations or may be refunded to the extent it exceeds a stockholder s liability for federal income tax. A stockholder that is not subject to federal income tax or otherwise required to file a federal income tax return would be required to file a federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. For federal income tax purposes, the tax basis of shares owned by a U.S. stockholder will be increased by an amount equal under current law to the difference between the amount of undistributed capital gains included in the U.S. stockholder s gross income and the tax deemed paid by the U.S. stockholder as described in this paragraph. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a deemed distribution.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of the deduction for ordinary income and capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by our U.S. stockholders on December 31 of the year in which the dividend was declared.

If an investor purchases shares of our preferred stock or common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though economically it may represent a return of his, her or its investment.

A U.S. stockholder generally will recognize taxable gain or loss if the U.S. stockholder sells or otherwise disposes of his, her or its shares of our preferred stock or common stock. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the U.S. stockholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our preferred stock or common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our preferred stock or common stock may be disallowed if other shares of our common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition. In such a case, the basis of the newly purchased shares will be adjusted to reflect the disallowed loss.

In general, individual U.S. stockholders currently are subject to a reduced maximum federal income tax rate of 20% on their net capital gain (*i.e.*, the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year) including any long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. In addition, for taxable years beginning after December 31, 2012, individuals with income in excess of $200,000 ($250,000 in the case of married individuals filing jointly) and certain estates and trusts are subject to an additional 3.8% tax on their net investment income, which generally includes net income from interest, dividends, annuities, royalties, and rents, and net capital gains (other than certain amounts earned from trades or businesses). Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate U.S. stockholders with net capital losses for a year (*i.e.*, capital losses in excess of capital gains) generally may deduct up to $3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate stockholder in excess of $3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate U.S. stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

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We will send to each of our U.S. stockholders, as promptly as possible after the end of each calendar year, a notice reporting the amounts includible in such U.S. stockholder s taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year s distributions generally will be reported to the Internal Revenue Service (including the amount of dividends, if any, eligible for the 20% qualified dividend income rate). Distributions may also be subject to additional state, local, and foreign taxes depending on a U.S. stockholder s particular situation. Dividends distributed by us generally will not be eligible for the corporate dividends-received deduction or the preferential rate applicable to qualified dividend income.

In some taxable years, we may be subject to the alternative minimum tax (AMT). If we have tax items that are treated differently for AMT purposes than for regular tax purposes, we may apportion those items between us and our stockholders, and this may affect our stockholder s AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued by the Internal Revenue Service, we may apportion these items in the same proportion that dividends paid to each stockholder bear to our taxable income (determined without regard to the dividends paid deduction), unless we determine that a different method for a particular item is warranted under the circumstances. You should consult your own tax advisor to determine how an investment in our stock could affect your AMT liability.

We may be required to withhold federal income tax (backup withholding) from all distributions to any non-corporate U.S. stockholder (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding, or (2) with respect to whom the Internal Revenue Service (the IRS) notifies us that such stockholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual s taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder s federal income tax liability, provided that proper information is timely provided to the IRS.

Dividend Reinvestment Plan We have adopted a dividend reinvestment plan through which all dividend distributions are paid to our common stockholders in the form of additional shares of our common stock, unless a stockholder elects to receive cash in accordance with the terms of the plan. See Dividend Reinvestment Plan . Any distributions made to a U.S. stockholder that are reinvested under the plan will nevertheless remain taxable to the U.S. stockholder. The U.S. stockholder will have an adjusted tax basis in the additional shares of our common stock purchased through the plan equal to the amount of the reinvested distribution. The additional shares will have a new holding period commencing on the day following the day on which the shares are credited to the U.S. stockholder s account.

Taxation of Non-U.S. Stockholders

A Non-U.S. stockholder is a beneficial owner of shares of our preferred stock or common stock that is not a U.S. stockholder or a partnership (including an entity treated as a partnership) for U.S. federal income tax purposes.

Whether an investment in our shares is appropriate for a Non-U.S. stockholder will depend upon that person s particular circumstances. An investment in the shares by a Non-U.S. stockholder may have adverse tax consequences. Non-U.S. stockholders should consult their tax advisors before investing in our preferred stock or common stock.

In general, dividend distributions (other than certain distributions derived from net long-term capital gains) paid by us to a Non-U.S. stockholder are subject to withholding of U.S. federal income tax at a rate of 30% (or lower applicable treaty rate) even if they are funded by income or gains (such as portfolio interest, short-term capital gains, or foreign-source dividend and interest income) that, if paid to a Non-U.S. stockholder directly, would not be subject to withholding. If the distributions are effectively connected with a U.S. trade or business of the Non-U.S. stockholder (and, if an income tax treaty applies, attributable to a permanent establishment maintained by the Non-U.S. stockholder in the United States), we will not be required to withhold federal income

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tax if the Non-U.S. stockholder complies with applicable certification and disclosure requirements, although the distributions will be subject to federal income tax at the rates applicable to U.S. stockholders. (Special certification requirements apply to a Non-U.S. stockholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisors.)

However, for taxable years beginning before January 1, 2014, no withholding is required with respect to certain distributions if (i) the distributions are properly reported to our stockholders as interest-related dividends or short-term capital gain dividends in written statements to our stockholders, (ii) the distributions are derived from sources specified in the Code for such dividends and (iii) certain other requirements are satisfied. Currently, we do not anticipate that any significant amount of our distributions would be reported as eligible for this exemption from withholding. No assurance can be provided that this exemption will be extended for tax years beginning after December 31, 2013.

Actual or deemed distributions of our net capital gains to a Non-U.S. stockholder, and gains realized by a Non-U.S. stockholder upon the sale of our preferred stock or common stock, will not be subject to federal withholding tax and generally will not be subject to federal income tax unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. stockholder (and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the Non-U.S. stockholder in the United States), or in the case of an individual stockholder, the stockholder is present in the United States for a period or periods aggregating 183 days or more during the year of the sale or capital gain dividend and certain other conditions are met.

If we distribute our net capital gains in the form of deemed rather than actual distributions, a Non-U.S. stockholder will be entitled to a federal income tax credit or tax refund equal to the stockholder s allocable share of the tax we pay on the capital gains deemed to have been distributed. In order to obtain the refund, the Non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a federal income tax return even if the Non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a federal income tax return. For a corporate Non-U.S. stockholder, distributions (both actual and deemed), and gains realized upon the sale of our preferred stock or common stock that are effectively connected to a U.S. trade or business may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate (or at a lower rate if provided for by an applicable treaty). Accordingly, investment in the shares may not be appropriate for a Non-U.S. stockholder.

A Non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal income tax, may be subject to information reporting and backup withholding of federal income tax on dividends unless the Non-U.S. stockholder provides us or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute or successor form) or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

Recently enacted legislation generally imposes a 30% withholding tax on payments of certain types of income to foreign financial institutions that fail to enter into an agreement with the U.S. Treasury to report certain required information with respect to accounts held by U.S. persons (or held by foreign entities that have U.S. persons as substantial owners). The types of income subject to the tax include U.S. source interest and dividends paid after December 31, 2013 and the gross proceeds from the sale of any property that could produce U.S.-source interest or dividends paid after December 31, 2016. The information required to be reported includes the identity and taxpayer identification number of each account holder that is a U.S. person and transaction activity within the holder s account. In addition, subject to certain exceptions, this legislation also imposes a 30% withholding on payments to foreign entities that are not financial institutions unless the foreign entity certifies that it does not have a greater than 10% U.S. owner or provides the withholding agent with identifying information on each greater than 10% U.S. owner. When these provisions become effective, depending on the status of a Non-U.S. Holder and the status of the intermediaries through which they hold their shares, Non-U.S. Holders could be subject to this 30% withholding tax with respect to distributions on their shares and proceeds from the sale of their shares. Under certain circumstances, a Non-U.S. Holder might be eligible for refunds or credits of such taxes.

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Non-U.S. persons should consult their own tax advisors with respect to the United States federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares.

Failure to Qualify as a Regulated Investment Company

If we fail to satisfy the 90% Income Test or the Diversification Tests for any taxable year, we may nevertheless continue to qualify as a RIC for such year if certain relief provisions are applicable (which may, among other things, require us to pay certain corporate-level federal taxes or to dispose of certain assets).

If we were unable to qualify for treatment as a RIC and the foregoing relief provisions are not applicable, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would they be required to be made. Such distributions would be taxable to our stockholders and if made in a taxable year beginning on or before January 1, 2014 and provided certain holding period and other requirements were met, could qualify for treatment as qualified dividend income eligible for the 20% maximum rate to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributions would be eligible for the dividends-received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder s tax basis, and any remaining distributions would be treated as a capital gain. To requalify as a RIC in a subsequent taxable year, we would be required to satisfy the RIC qualification requirements for that year and dispose of any earnings and profits from any year in which we failed to qualify as a RIC. Subject to a limited exception applicable to RICs that qualified as such under Subchapter M of the Code for at least one year prior to disqualification and that requalify as a RIC no later than the second year following the nonqualifying year, we could be subject to tax on any unrealized net built-in gains in the assets held by us during the period in which we failed to qualify as a RIC that are recognized within the subsequent 10 years, unless we made a special election to pay corporate-level tax on such built-in gain at the time of our requalification as a RIC.

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REGULATION

The following discussion is a general summary of the material prohibitions and descriptions governing business development companies. It does not purport to be a complete description of all of the laws and regulations affecting business development companies.

A business development company primarily focuses on investing in or lending to private companies and making managerial assistance available to them, while providing its stockholders with the ability to retain the liquidity of a publicly-traded stock. The 1940 Act contains prohibitions and restrictions relating to transactions between business development companies and their directors and officers and principal underwriters and certain other related persons and requires that a majority of the directors be persons other than interested persons, as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a business development company unless approved by a majority of our outstanding voting securities. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (i) 67% or more of such company s shares present at a meeting if more than 50% of the outstanding shares of such company are present or represented by proxy, or (ii) more than 50% of the outstanding shares of such company.

Qualifying Assets

Under the 1940 Act, a business development company may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company s total assets. The principal categories of qualifying assets relevant to our proposed business are the following:

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer which:

(a) is organized under the laws of, and has its principal place of business in, the United States;

(b) is not an investment company (other than a small business investment company wholly owned by the business development company) or a company that would be an investment company but for certain exclusions under the 1940 Act; and

(c) does not have any class of securities listed on a national securities exchange; or if it has securities listed on a national securities exchange such company has a market capitalization of less than $250 million; is controlled by the business development company and has an affiliate of a business development company on its board of directors; or meets such other criteria as may be established by the SEC.

(2) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(3) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

(4) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

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(5) Cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment.

Control, as defined by the 1940 Act, is presumed to exist where a business development company beneficially owns more than 25% of the outstanding voting securities of the portfolio company.

We do not intend to acquire securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, we generally cannot acquire more than 3% of the voting stock of any investment company (as defined in the 1940 Act), invest more than 5% of the value of our total assets in the securities of one such investment company or invest more than 10% of the value of our total assets in the securities of such investment companies in the aggregate. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses.

Significant Managerial Assistance

In order to count portfolio securities as qualifying assets for the purpose of the 70% test discussed above, a business development company must either control the issuer of the securities or must offer to make available significant managerial assistance; except that, where the business development company purchases such securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available significant managerial assistance means, among other things, any arrangement whereby the business development company, through its directors, officers or employees, offers to provide and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company through monitoring of portfolio company operations, selective participation in board and management meetings, consulting with and advising a portfolio company s officers or other organizational or financial guidance.

Temporary Investments

Pending investment in other types of qualifying assets, as described above, our investments may consist of cash, cash equivalents, U.S. government securities or high quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. Typically, we invest in U.S. treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the diversification tests imposed on us by the Code in order to qualify as a RIC for federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. We will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

Warrants and Options

Under the 1940 Act, a business development company is subject to restrictions on the amount of warrants, options, restricted stock or rights to purchase shares of capital stock that it may have outstanding at any time. In particular, the amount of capital stock that would result from the conversion or exercise of all outstanding warrants, options or rights to purchase capital stock cannot exceed 25% of the business development company s total outstanding shares of capital stock. This amount is reduced to 20% of the business development company s total outstanding shares of capital stock if the amount of warrants, options or rights issued pursuant to an executive compensation plan would exceed 15% of the business development company s total outstanding shares of capital stock. We have received exemptive relief from the SEC permitting us to issue stock options and restricted stock to our employees and directors subject to the above conditions, among others. For a discussion regarding the conditions of this exemptive relief, see Exemptive Relief below and Note 7 to our consolidated financial statements.

Senior Securities; Coverage Ratio

We will be permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, we may not be permitted to declare any cash dividend or other distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such dividend, distribution, or purchase price. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes. For a discussion of the risks associated with the resulting leverage, see Risk Factors Risks Related to Our Business & Structure Because we borrow money, there could be increased risk in investing in our company.

Capital Structure

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, at a price below the current net asset value of the common stock, or sell warrants, options or rights to acquire such common stock, at a price below the current net asset value of the common stock if our board of directors determines that such sale is in the best interests of the Company and our stockholders have approved the practice of making such sales.

Code of Ethics

We have adopted and will maintain a code of ethics that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to the code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code s requirements. Our code of ethics will generally not permit investments by our employees in securities that may be purchased or held by us. We may be prohibited under the 1940 Act from conducting certain transactions with our affiliates without the prior approval of our directors who are not interested persons and, in some cases, the prior approval of the SEC.

Our code of ethics is posted on our website at www.htgc.com and was filed with the SEC as an exhibit to the registration statement (Registration No. 333-122950) for our initial public offering. You may read and copy the code of ethics at the SEC s Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. In addition, the code of ethics is available on the EDGAR Database on the SEC s Internet site at http://www.sec.gov. You may also obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the SEC s Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

Privacy Principles

We are committed to maintaining the privacy of our stockholders and safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our stockholders, although certain non-public personal information of our stockholders may become available to us. We do not disclose any non-public personal information about our stockholders or former stockholders, except as permitted by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent).

We restrict access to non-public personal information about our stockholders to our employees with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our stockholders.

Proxy Voting Policies and Procedures

We vote proxies relating to our portfolio securities in the best interest of our stockholders. We review on a case-by-case basis each proposal submitted to a stockholder vote to determine its impact on the portfolio securities held by us. Although we generally vote against proposals that may have a negative impact on our portfolio securities, we may vote for such a proposal if there exists compelling long-term reasons to do so.

Our proxy voting decisions are made by our investment committee, which is responsible for monitoring each of our investments. To ensure that our vote is not the product of a conflict of interest, we require that: (i) anyone involved in the decision making process disclose to our Chief Compliance Officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (ii) employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties.

Exemptive Relief

On June 21, 2005, we filed a request with the SEC for exemptive relief to allow us to take certain actions that would otherwise be prohibited by the 1940 Act, as applicable to business development companies. Specifically, we requested that the SEC permit us to issue stock options to our non-employee directors as contemplated by Section 61(a)(3)(B)(i)(II) of the 1940 Act. On February 15, 2007, we received approval from the SEC on this exemptive request. In addition, in June 2007, we filed an amendment to the February 2007 order to adjust the number of shares issued to the non-employee directors. On October 10, 2007, we received approval from the SEC on this amended exemptive request.

On April 5, 2007, we received approval from the SEC on our request for exemptive relief that permits us to exclude the indebtedness of our wholly-owned subsidiaries that are small business investment companies from the 200% asset coverage requirement applicable to us.

On May 2, 2007, we received approval from the SEC on our request for exemptive relief that permits us to issue restricted stock to our employees, officers and directors. On June 21, 2007, our shareholders approved amendments to the 2004 Equity Incentive Plan and 2006 Non-Employee Incentive Plan permitting such restricted grants.

On June 22, 2010 we received approval from the SEC on our request for exemptive relief that permits our employees to exercise their stock options and restricted stock and pay any related income taxes using a cashless exercise program.

Legislation

Recently, legislation was introduced in the U.S. House of Representatives which may revise certain regulations applicable to business development companies. The legislation provides for (i) increasing the amount of funds business development companies may borrow by reducing asset to debt limitations from 2:1 to 3:2,

(ii) permitting business development companies to file registration statements with the U.S. Securities and Exchange Commission that incorporate information by reference from already-filed reports, (iii) utilizing other streamlined registration processes afforded to operating companies, and (iv) allowing business development companies to own investment adviser subsidiaries. There are no assurances as to when the legislation will be enacted by Congress, if at all, or, if enacted, what final form the legislation would take.

Other

We will be periodically examined by the SEC for compliance with the Securities Exchange Act of 1934 and the 1940 Act.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a business development company, we are prohibited from protecting any director or officer against any liability to our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person s office.

We are required to adopt and implement written policies and procedures reasonably designed to prevent violation of the federal securities laws, review these policies and procedures annually for their adequacy and the effectiveness of their implementation. We have designated Mr. Penney, our General Counsel, as our Chief Compliance Officer responsible for administering these policies and procedures.

Small Business Administration Regulations

We make investments in qualifying small businesses through our two wholly-owned SBIC subsidiaries, HT II and HT III. At December 31, 2013 we had issued $225.0 million in SBA-guaranteed debentures in HT II and HT III, which is the maximum amount allowed for a group of SBICs under common control. In March 2014, we repaid $34.8 million of SBA debentures under HT II, priced at approximately 6.38%, including annual fees. At March 31, 2014, we have issued $190.2 million in SBA-guaranteed debentures in our SBIC subsidiaries. In aggregate, at March 31, 2014, with our net investment of $112.5 million, HT II and HT III have the capacity to issue a total of $225.0 million of SBA-guaranteed debentures, subject to SBA approval.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding $18.0 million and have average annual fully taxed net income not exceeding $6.0 million for the two most recent fiscal years. In addition, SBICs must devote 25.0% of its investment activity to smaller enterprises as defined by the SBA. A smaller enterprise is one that has a tangible net worth not exceeding $6.0 million and has average annual fully taxed net income not exceeding $2.0 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through its wholly-owned subsidiaries HT II and HT III, we plan to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II and HT III are periodically examined and audited by the SBA s staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to the Company if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect the Company because HT II and III are our wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC s leverage as of March 31, 2014 as a result of having sufficient capital as defined under the SBA regulations.

HT II and HT III hold approximately $143.7 million and $290.0 million in assets, respectively, and accounted for approximately 9.5% and 19.3% of our total assets prior to consolidation at March 31, 2014.

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The SBA restricts the ability of SBICs to repurchase their capital stock. SBA regulations also include restrictions on a change of control or transfer of an SBIC and require that SBICs invest idle funds in accordance with SBA regulations. In addition, HT II and HT III may also be limited in their ability to make distributions to us if they do not have sufficient capital, in accordance with SBA regulations.

Our SBIC subsidiaries are subject to regulation and oversight by the SBA, including requirements with respect to maintaining certain minimum financial ratios and other covenants. Receipt of an SBIC license does not assure that our SBIC subsidiaries will receive SBA guaranteed debenture funding, which is dependent upon our SBIC subsidiaries continuing to be in compliance with SBA regulations and policies. The SBA, as a creditor, will have a superior claim to our SBIC subsidiaries assets over our stockholders in the event we liquidate our SBIC subsidiaries or the SBA exercises its remedies under the SBA-guaranteed debentures issued by our SBIC subsidiaries upon an event of default.

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DETERMINATION OF NET ASSET VALUE

We determine the net asset value per share of our common stock quarterly. The net asset value per share is equal to the value of our total assets minus liabilities and any preferred stock outstanding divided by the total number of shares of common stock outstanding. As of the date of this report, we do not have any preferred stock outstanding.

At March 31, 2014, 76.8% of the Company s total assets represented investments in portfolio companies that are valued at fair value by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. The Company s investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification topic 820 Fair Value Measurements and Disclosures (ASC 820). The Company s debt securities are primarily invested in venture capital-backed companies in technology-related markets, including technology, biotechnology, life science and energy and renewables technology industries. Given the nature of lending to these types of businesses, substantially all of the Company s investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, the Company values substantially all of its investments at fair value as determined in good faith pursuant to a consistent valuation policy and the Company s Board of Directors in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of the Company s investments determined in good faith by its Board may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

The Company may from time to time engage an independent valuation firm to provide the Company with valuation assistance with respect to certain portfolio investments on a quarterly basis. The Company intends to continue to engage an independent valuation firm to provide management with assistance regarding the Company s determination of the fair value of selected portfolio investments each quarter unless directed by the Board of Directors to cancel such valuation services. The scope of services rendered by an independent valuation firm is at the discretion of the Board of Directors. The Company s Board of Directors is ultimately and solely responsible for determining the fair value of the Company s investments in good faith.

With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, the Company s Board of Directors has approved a multi-step valuation process each quarter, as described below:

(1) the Company s quarterly valuation process begins with each portfolio company being initially valued by the investment professionals responsible for the portfolio investment;

(2) preliminary valuation conclusions are then documented and business based assumptions are discussed with the Company s investment committee;

(3) the Valuation Committee of the Board of Directors reviews the preliminary valuation of the investments in the portfolio as provided by the investment committee, which incorporates the results of the independent valuation firm as appropriate;

(4) the Valuation Committee discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of, where applicable, the respective independent valuation firm and the investment committee.

ASC 820 establishes a framework for measuring the fair value of the assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. ASC 820 also enhances disclosure requirements for fair value measurements based on the level within the hierarchy of the information used in the valuation. ASC 820 applies whenever other standards require (or permit) assets or liabilities to

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be measured at fair value. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company has categorized all investments recorded at fair value in accordance with ASC 820 based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC 820 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date. The types of assets carried at Level 1 fair value generally are equities listed in active markets.

Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset in connection with market data at the measurement date and for the extent of the instrument s anticipated life. Fair valued assets that are generally included in this category are warrants held in a public company.

Level 3 Inputs reflect management s best estimate of what market participants would use in pricing the asset at the measurement date. It includes prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Generally, assets carried at fair value and included in this category are the debt investments and warrants and equities held in a private company.

Debt Investments

The Company follows the guidance set forth in ASC 820 which establishes a framework for measuring the fair value of assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. The Company s debt securities are primarily invested in venture capital-backed companies in technology-related markets, including technology, biotechnology, life science and energy and renewables technology industries. Given the nature of lending to these types of businesses, the Company s investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for debt instruments for these investment securities to be traded or exchanged.

In making a good faith determination of the value of our investments, the Company generally starts with the cost basis of the investment, which includes the value attributed to the OID, if any, and PIK interest or other receivables which have been accrued to principal as earned. The Company then applies the valuation methods as set forth below.

The Company applies a procedure that assumes a sale of investment in a hypothetical market to a hypothetical market participant where buyers and sellers are willing participants. The hypothetical market does not include scenarios where the underlying security was simply repaid or extinguished, but includes an exit concept. Under this process, the Company also evaluates the collateral for recoverability of the debt investments as well as applies all of its historical fair value analysis. The Company uses pricing on recently issued comparable debt securities to determine the baseline hypothetical market yields as of the measurement date.

The Company considers each portfolio company s credit rating, security liens and other characteristics of the investment to adjust the baseline yield to derive a hypothetical yield for each investment as of the measurement date. The anticipated future cash flows from each investment are then discounted at the hypothetical yield to estimate each investment s fair value as of the measurement date.

The Company s process includes, among other things, the underlying investment performance, the current portfolio company s financial condition and market changing events that impact valuation, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. The Company values its syndicated loans, which represent less than 4.0% of the Company s debt investment portfolio, using

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broker quotes and bond indices amongst other factors. If there is a significant deterioration of the credit quality of a debt investment, the Company may consider other factors to estimate fair value, including the proceeds that would be received in a liquidation analysis.

The Company records unrealized depreciation on investments when it believes that an investment has decreased in value, including where collection of a loan is doubtful or, if under the in-exchange premise, when the value of a debt security was to be less than amortized cost of the investment. Conversely, where appropriate, the Company records unrealized appreciation if it believes that the underlying portfolio company has appreciated in value and, therefore, that its investment has also appreciated in value or, if under the in-exchange premise, the value of a debt security were to be greater than amortized cost.

When originating a debt instrument, the Company generally receives warrants or other equity-related securities from the borrower. The Company determines the cost basis of the warrants or other equity-related securities received based upon their respective fair values on the date of receipt in proportion to the total fair value of the debt and warrants or other equity-related securities received. Any resulting discount on the debt investment from recordation of the warrant or other equity instruments is accreted into interest income over the life of the debt investment.

Equity-Related Securities and Warrants

In accordance with the 1940 Act, unrestricted publicly traded securities for which market quotations are readily available are valued at the closing market quote on the measurement date.

At each reporting date, privately held warrant and equity-related securities are valued based on an analysis of various factors including, but not limited to, the portfolio company s operating performance and financial condition and general market conditions, price to enterprise value or price to equity ratios, discounted cash flow, valuation comparisons to comparable public companies or other industry benchmarks. When an external event occurs, such as a purchase transaction, public offering, or subsequent equity sale, the pricing indicated by that external event is utilized to corroborate the Company s valuation of the warrant and equity-related securities. The Company periodically reviews the valuation of its portfolio companies that have not been involved in a qualifying external event to determine if the enterprise value of the portfolio company may have increased or decreased since the last valuation measurement date. The Company estimates the fair value of warrants using a Black Scholes pricing model.

Determinations In Connection With Offerings

In connection with each offering of shares of our common stock, the Board of Directors or a committee thereof is required to make the determination that we are not selling shares of our common stock at a price below our then current net asset value at the time at which the sale is made. The Board of Directors considers the following factors, among others, in making such determination:

- the net asset value of our common stock disclosed in the most recent periodic report we filed with the SEC;

- our management s assessment of whether any material change in the net asset value has occurred (including through the realization of net gains on the sale of our portfolio investments) from the period beginning on the date of the most recently disclosed net asset value to the period ending two days prior to the date of the sale of our common stock; and

- the magnitude of the difference between (i) a value that our Board of Directors or an authorized committee thereof has determined reflects the current net asset value of our common stock, which is generally based upon the net asset value of our common stock disclosed in the most recent periodic report that we filed with the SEC, as adjusted to reflect our management s assessment of any material

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change in the net asset value of our common stock since the date of the most recently disclosed net asset value of our common stock, and (ii) the offering price of the shares of our common stock in the proposed offering.

Importantly, this determination does not require that we calculate net asset value in connection with each offering of shares of our common stock, but instead it involves the determination by the Board of Directors or a committee thereof that we are not selling shares of our common stock at a price below the then current net asset value at the time at which the sale is made.

Moreover, to the extent that there is even a remote possibility that we may (i) issue shares of our common stock at a price below the then current net asset value of our common stock at the time at which the sale is made or (ii) trigger the undertaking (which we provided to the SEC in the registration statement to which this prospectus is a part) to suspend the offering of shares of our common stock pursuant to this prospectus if the net asset value fluctuates by certain amounts in certain circumstances until the prospectus is amended, the Board of Directors or a committee thereof will elect, in the case of clause (i) above, either to postpone the offering until such time that there is no longer the possibility of the occurrence of such, events or to undertake to determine net asset value within two days prior to any such sale to ensure that such sale will not be below our then current net asset value, and, in the case of clause (ii) above, to comply with such undertaking or to undertake to determine net asset value to ensure that such undertaking has not been triggered.

These processes and procedures are part of our compliance policies and procedures. Records will be made contemporaneously with all determinations described in this section and these records will be maintained with other records we are required to maintain under the 1940 Act.

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DIVIDEND REINVESTMENT PLAN

We have adopted a dividend reinvestment plan (the DRP), through which all dividend distributions are paid to our stockholders in the form of additional shares of our common stock, unless a stockholder elects to receive cash as provided below. In this way, a stockholder can maintain an undiluted investment in our common stock and still allow us to pay out the required distributable income.

No action is required on the part of a registered stockholder to receive a dividend distribution in shares of our common stock. A registered stockholder may elect to receive an entire dividend distribution in cash by notifying American Stock Transfer & Trust Company, the plan administrator and our transfer agent and registrar, so that such notice is received by the plan administrator no later than three days prior to the payment date for dividend distributions to stockholders. The plan administrator will set up an account for shares acquired through the DRP for each stockholder who has not elected to receive distributions in cash (each a Participant) and hold such shares in non-certificated form. Upon request by a Participant, received not less than three days prior to the payment date, the plan administrator will, instead of crediting shares to the Participant s account, issue a certificate registered in the Participant s name for the number of whole shares of our common stock and a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election.

We expect to use primarily newly-issued shares to implement the DRP, whether our shares are trading at a premium or at a discount to net asset value, although we have the option under the DRP to purchase shares in the market to fulfill DRP requirements. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the dividend distribution payable to such stockholder by the market price per share of our common stock at the close of regular trading on the NYSE on the valuation date for such dividend distribution. Market price per share on that date will be the closing price for such shares on the NYSE or, if no sale is reported for such day, at the average of their electronically-reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the distribution cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.

There is no charge to our stockholders for receiving their dividend distributions in the form of additional shares of our common stock. The plan administrator s fees for handling dividend distributions in stock are paid by us. There are no brokerage charges with respect to shares we have issued directly as a result of dividend distributions payable in stock. If a Participant elects by internet or by written or telephonic notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the Participant s account and remit the proceeds to the Participant, the plan administrator is authorized to deduct a $15.00 transaction fee plus brokerage commissions from the proceeds.

Any shares issued in connection with a stock split or stock dividend will be added to a Participant s account with the Plan Administrator. The Plan Administrator may curtail or suspend transaction processing until the completion of such stock split or payment of such stock dividend.

Stockholders who receive dividend distributions in the form of stock generally are subject to the same federal, state and local tax consequences as are stockholders who elect to receive their dividend distributions in cash. A stockholder s basis for determining gain or loss upon the sale of stock received in a dividend distribution from us will be equal to the total dollar amount of the dividend distribution payable to the stockholder.

The DRP may be terminated by us upon notice in writing mailed to each Participant at least 30 days prior to any record date for the payment of any dividend distribution by us. All correspondence concerning the DRP, including requests for additional information, should be directed to the plan administrator by mail at American Stock Transfer & Trust Company, Attn: Dividend Reinvestment Department, P.O. Box 922, Wall Street Station, New York, NY 10269-0560 or by phone at 1-866-669-9888.

DESCRIPTION OF CAPITAL STOCK

The following description is based on relevant portions of the Maryland General Corporation Law and on our charter and bylaws. This summary may not contain all of the information that is important to you, and we refer you to the Maryland General Corporation Law and our charter and bylaws for a more detailed description of the provisions summarized below.

Under the terms of our charter, our authorized capital stock consists of 100,000,000 shares of common stock, par value $0.001 per share, of which 62,622,652 shares are outstanding as of May 23, 2014. Under our charter, our Board of Directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock, and to cause the issuance of such shares, without obtaining stockholder approval. In addition, as permitted by the Maryland General Corporation Law, but subject to the 1940 Act, our charter provides that the Board of Directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

Common Stock

All shares of our common stock have equal rights as to earnings, assets, dividends and voting privileges, except as described below and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable.

Distributions may be paid to the holders of our common stock if, as and when authorized by our Board of Directors and declared by us out of assets legally available therefor. Shares of our common stock have no conversion, exchange, preemptive or redemption rights. In the event of a liquidation, dissolution or winding up of Hercules Technology Growth Capital each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock will elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

Title of Class	Amount Authorized	Amount Held by Company for its Account	Amount Outstanding
Common Stock, $0.001 par value per share	100,000,000		62,622,652

Preferred Stock

Our charter authorizes our Board of Directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each class or series, the Board of Directors is required by Maryland law and by our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the Board of Directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any issuance of preferred stock must comply with the requirements of the 1940 Act. The 1940 Act requires, among other things, that (1) immediately after issuance and before any dividend or other distribution is made with respect to our common stock and before

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any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two years or more. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors and officers liability to the maximum extent permitted by Maryland law, subject to the requirements of the 1940 Act.

Our charter authorizes us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which such person may become subject or which such person may incur by reason of his or her service in any such capacity, except with respect to any matter as to which such person shall have been finally adjudicated in any proceeding not to have acted in good faith in the reasonable belief that their action was in our best interest or to be liable to us or our stockholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person s office. Our charter also provides that, to the maximum extent permitted by Maryland law, with the approval of our Board of Directors and provided that certain conditions described in our charter are met, we may pay certain expenses incurred by any such indemnified person in advance of the final disposition of a proceeding upon receipt of an undertaking by or on behalf of such indemnified person to repay amounts we have so paid if it is ultimately determined that indemnification of such expenses is not authorized under our charter. Our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in any such capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity, except with respect to any matter as to which such person shall have been finally adjudicated in any proceeding not to have acted in good faith in the reasonable belief that their action was in our best interest or to be liable to us or our stockholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person s office. Our bylaws also provide that, to the maximum extent permitted by Maryland law, with the approval of our Board of Directors and provided that certain conditions described in our bylaws are met, we may pay certain expenses incurred by any such indemnified person in advance of the final disposition of a proceeding upon receipt of an undertaking by or on behalf of such indemnified person to repay amounts we have so paid if it is ultimately determined that indemnification of such expenses is not authorized under our bylaws.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments,

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penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation s receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

We currently have in effect a directors and officers insurance policy covering our directors and officers and us for any acts and omissions committed, attempted or allegedly committed by any director or officer during the policy period. The policy is subject to customary exclusions.

Provisions of the Maryland General Corporation Law and Our Charter and Bylaws

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquiror to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our Board of Directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

Classified Board of Directors

Our Board of Directors is divided into three classes of directors serving staggered three-year terms. The terms of the first, second and third classes will expire in 2012, 2013 and 2014, respectively. Upon expiration of their current terms, directors of each class are eligible to serve for three-year terms or until their successors are duly elected and qualify. Each year one class of directors will be elected by the stockholders. A classified board may render a change in control or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified Board of Directors will help to ensure the continuity and stability of our management and policies.

Election of Directors

Our charter provides that, except as otherwise provided in the bylaws, the affirmative vote of the holders of a majority of the outstanding shares of stock entitled to vote in the election of directors will be required to elect each director. Our bylaws currently provide that directors are elected by a plurality of the votes cast in the election of directors. Pursuant to our charter and bylaws, our Board of Directors may amend the bylaws to alter the vote required to elect directors.

Number of Directors; Vacancies; Removal

Our charter provides that the number of directors will be set only by the Board of Directors in accordance with our bylaws. Our bylaws provide that a majority of our entire Board of Directors may at any time increase or decrease the number of directors. However, unless the bylaws are amended, the number of directors may never

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be less than one nor more than 12. We have elected to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the Board of Directors. Accordingly, at such time, except as may be provided by the Board of Directors in setting the terms of any class or series of preferred stock, any and all vacancies on the Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy shall serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act.

Our charter provides that a director may be removed only for cause, as defined in the charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

Action by Stockholders

Under the Maryland General Corporation Law, stockholder action may be taken only at an annual or special meeting of stockholders or by unanimous consent in lieu of a meeting (unless the charter provides for stockholder action by less than unanimous written consent, which our charter does not). These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the Board of Directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by the Board of Directors or (3) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of persons for election to the Board of Directors at a special meeting may be made only (1) pursuant to our notice of the meeting, (2) by the Board of Directors or (3) provided that the Board of Directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our Board of Directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our Board of Directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our Board of Directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

Calling of Special Meeting of Stockholders

Our bylaws provide that special meetings of stockholders may be called by our Board of Directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders shall be called by our secretary upon the written request of stockholders entitled to cast not less than a majority of all of the votes entitled to be cast at such meeting.

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Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our charter also provides that certain charter amendments and any proposal for our conversion, whether by merger or otherwise, from a closed-end company to an open-end company or any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 75% of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by at least 75% of our continuing directors (in addition to approval by our Board of Directors), such amendment or proposal may be approved by the stockholders entitled to cast a majority of the votes entitled to be cast on such a matter. The continuing directors are defined in our charter as our current directors, as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the Board of Directors.

Our charter and bylaws provide that the Board of Directors will have the exclusive power to make, alter, amend or repeal any provision of our bylaws.

No Appraisal Rights

Except with respect to appraisal rights arising in connection with the Control Share Act discussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights.

Control Share Acquisitions

The Maryland Control Share Acquisition Act (the Control Share Act) provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the Board of Directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

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If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may repurchase for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to repurchase control shares is subject to certain conditions and limitations. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The Control Share Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the Control Share Act any and all acquisitions by any person of our shares of stock.

Business Combinations

Under the Maryland Business Combination Act (the Business Combination Act), business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation s shares; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under this statute if the Board of Directors approved in advance the transaction by which such stockholder otherwise would have become an interested stockholder. However, in approving a transaction, the Board of Directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the 5-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the Board of Directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation s common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the Board of Directors before the time that the interested stockholder becomes an interested

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stockholder. Our Board of Directors has adopted a resolution exempting any business combination between us and any other person from the provisions of the Business Combination Act, provided that the business combination is first approved by the Board of Directors, including a majority of the directors who are not interested persons as defined in the 1940 Act.

Conflict with 1940 Act

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

Regulatory Restrictions

Our wholly-owned subsidiaries, HT II and HT III, have obtained SBIC licenses. The SBA prohibits, without prior SBA approval, a change of control or transfers which would result in any person (or group of persons acting in concert) owning 10% or more of any class of capital stock of a SBIC. A change of control is any event which would result in a transfer of the power, direct or indirect, to direct the management and policies of a SBIC, whether through ownership, contractual arrangements or otherwise.

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DESCRIPTION OF OUR PREFERRED STOCK

In addition to shares of common stock, our charter authorizes the issuance of preferred stock. We may issue preferred stock from time to time in one or more classes or series, without stockholder approval. If we offer preferred stock under this prospectus we will issue an appropriate prospectus supplement. Prior to issuance of shares of each class or series, our board of directors is required by Maryland law and by our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the board of directors could authorize the issuance of shares of preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any such an issuance must adhere to the requirements of the 1940 Act, Maryland law and any other limitations imposed by law.

The following is a general description of the terms of the preferred stock we may issue from time to time. Particular terms of any preferred stock we offer will be described in the prospectus supplement accompanying each preferred share offering.

The 1940 Act requires, among other things, that (i) immediately after issuance and before any dividend or other distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, (ii) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends or other distribution on the preferred stock are in arrears by two years or more, and (iii) such shares be cumulative as to dividends and have a complete preference over our common stock to payment of their liquidation in event of dissolution. Some matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to cease operations as a business development company. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

For any series of preferred stock that we may issue, our board of directors will determine and the articles supplementary and the prospectus supplement relating to such series will describe:

- the designation and number of shares of such series;
- the rate and time at which, and the preferences and conditions under which, any dividends or other distributions will be paid on shares of such series, as well as whether such dividends or other distributions are participating or non-participating;
- any provisions relating to convertibility or exchangeability of the shares of such series, including adjustments to the conversion price of such series;
- the rights and preferences, if any, of holders of shares of such series upon our liquidation, dissolution or winding up of our affairs;
- the voting powers, if any, of the holders of shares of such series;
- any provisions relating to the redemption of the shares of such series;
- any limitations on our ability to pay dividends or make distributions on, or acquire or redeem, other securities while shares of such series are outstanding;

any conditions or restrictions on our ability to issue additional shares of such series or other securities;

if applicable, a discussion of certain U.S. federal income tax considerations; and

any other relative powers, preferences and participating, optional or special rights of shares of such series, and the qualifications, limitations or restrictions thereof.

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All shares of preferred stock that we may issue will be identical and of equal rank except as to the particular terms thereof that may be fixed by our board of directors, and all shares of each series of preferred stock will be identical and of equal rank except as to the dates from which dividends or other distributions, if any, thereon will be cumulative. To the extent we issue preferred stock, the payment of dividends to holders of our preferred stock will take priority over payment of dividends to our common stockholders.

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DESCRIPTION OF OUR SUBSCRIPTION RIGHTS

The following is a general description of the terms of the subscription rights we may issue from time to time. Particular terms of any subscription rights we offer will be described in the prospectus supplement relating to such subscription rights.

We may issue subscription rights to our stockholders to purchase common stock. Subscription rights may be issued independently or together with any other offered security and may or may not be transferable by the person purchasing or receiving the subscription rights. In connection with a subscription rights offering to our stockholders, we would distribute certificates evidencing the subscription rights and a prospectus supplement to our stockholders on the record date that we set for receiving subscription rights in such subscription rights offering.

Our stockholders will indirectly bear all of the expenses of the subscription rights offering, regardless of whether our stockholders exercise any subscription rights.

A prospectus supplement will describe the particular terms of any subscription rights we may issue, including the following:

- the period of time the offering would remain open (which shall be open a minimum number of days such that all record holders would be eligible to participate in the offering and shall not be open longer than 120 days);

- the title and aggregate number of such subscription rights;

- the exercise price for such subscription rights (or method of calculation thereof);

- the currency or currencies, including composite currencies, in which the price of such subscription rights may be payable;

- if applicable, the designation and terms of the securities with which the subscription rights are issued and the number of subscription rights issued with each such security or each principal amount of such security;

- the ratio of the offering (which, in the case of transferable rights, will require a minimum of three shares to be held of record before a person is entitled to purchase an additional share);

- the number of such subscription rights issued to each stockholder;

- the extent to which such subscription rights are transferable and the market on which they may be traded if they are transferable;

- the date on which the right to exercise such subscription rights shall commence, and the date on which such right shall expire (subject to any extension);

- if applicable, the minimum or maximum number of subscription rights that may be exercised at one time;

the extent to which such subscription rights include an over-subscription privilege with respect to unsubscribed securities and the terms of such over-subscription privilege;

any termination right we may have in connection with such subscription rights offering;

the terms of any rights to redeem, or call such subscription rights;

information with respect to book-entry procedures, if any;

the terms of the securities issuable upon exercise of the subscription rights;

the material terms of any standby underwriting, backstop or other purchase arrangement that we may enter into in connection with the subscription rights offering;

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- if applicable, a discussion of certain U.S. federal income tax considerations applicable to the issuance or exercise of such subscription rights; and

- any other terms of such subscription rights, including exercise, settlement and other procedures and limitations relating to the transfer and exercise of such subscription rights.

Each subscription right will entitle the holder of the subscription right to purchase for cash or other consideration such amount of shares of common stock at such subscription price as shall in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the subscription rights offered thereby. Subscription rights may be exercised as set forth in the prospectus supplement beginning on the date specified therein and continuing until the close of business on the expiration date for such subscription rights set forth in the prospectus supplement. After the close of business on the expiration date, all unexercised subscription rights will become void.

Upon receipt of payment and the subscription rights certificate properly completed and duly executed at the corporate trust office of the subscription rights agent or any other office indicated in the prospectus supplement we will forward, as soon as practicable, the shares of common stock purchasable upon such exercise. If less than all of the rights represented by such subscription rights certificate are exercised, a new subscription certificate will be issued for the remaining rights. Prior to exercising their subscription rights, holders of subscription rights will not have any of the rights of holders of the securities purchasable upon such exercise. To the extent permissible under applicable law, we may determine to offer any unsubscribed offered securities directly to persons other than stockholders, to or through agents, underwriters or dealers or through a combination of such methods, as set forth in the applicable prospectus supplement.

Under the 1940 Act, we may generally only offer subscription rights (other than rights to subscribe expiring not later than 120 days after their issuance and issued exclusively and ratably to a class or classes of our security holders) on the condition that (1) the subscription rights expire by their terms within ten years; (2) the exercise price is not less than the current market value at the date of issuance; (3) our stockholders authorize the proposal to issue such subscription rights, and a required majority of our Board of Directors approves of such issuance on the basis that the issuance is in the best interests of the Company and our stockholders; and (4) if the subscription rights are accompanied by other securities, the subscription rights are not separately transferable unless no class of such subscription rights and the securities accompanying them has been publicly distributed. A required majority of our Board of Directors is a vote of both a majority of our directors who have no financial interest in the transaction and a majority of the directors who are not interested persons of the company. The 1940 Act also provides that the amount of our voting securities that would result from the exercise of all outstanding warrants, options and subscription rights at the time of issuance may not exceed 25% of our outstanding voting securities.

For information regarding the dilutive impact of rights offerings, please see Risks Risks Related to an Investment in our Securities Your interest in us may be diluted if you do not fully exercise your subscription rights in any rights offering. In addition, if the subscription price is less than our net asset value per share, then you will experience an immediate dilution of the aggregate net asset value of your shares.

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DESCRIPTION OF WARRANTS

The following is a general description of the terms of the warrants we may issue from time to time. Particular terms of any warrants we offer will be described in the prospectus supplement relating to such warrants and will be subject to compliance with the 1940 Act.

We may issue warrants to purchase shares of our common stock, preferred stock or debt securities. Such warrants may be issued independently or together with shares of common stock, preferred stock or debt securities and may be attached or separate from such securities. We will issue each series of warrants under a separate warrant agreement to be entered into between us and a warrant agent. The warrant agent will act solely as our agent and will not assume any obligation or relationship of agency for or with holders or beneficial owners of warrants.

A prospectus supplement will describe the particular terms of any series of warrants we may issue, including the following:

- the title and aggregate number of such warrants;
- the price or prices at which such warrants will be issued;
- the currency or currencies, including composite currencies, in which the price of such warrants may be payable;
- if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security or each principal amount of such security;
- in the case of warrants to purchase debt securities, the principal amount of debt securities purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which this principal amount of debt securities may be purchased upon such exercise;
- in the case of warrants to purchase common stock or preferred stock, the number of shares of common stock or preferred stock, as the case may be, purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which these shares may be purchased upon such exercise;
- the date on which the right to exercise such warrants shall commence and the date on which such right will expire (subject to any extension);
- whether such warrants will be issued in registered form or bearer form;
- if applicable, the minimum or maximum amount of such warrants that may be exercised at any one time;
- if applicable, the date on and after which such warrants and the related securities will be separately transferable;

- the terms of any rights to redeem, or call such warrants;
- information with respect to book-entry procedures, if any;
- the terms of the securities issuable upon exercise of the warrants;
- if applicable, a discussion of certain U.S. federal income tax considerations; and
- any other terms of such warrants, including terms, procedures and limitations relating to the exchange and exercise of such warrants.

We and the warrant agent may amend or supplement the warrant agreement for a series of warrants without the consent of the holders of the warrants issued thereunder to effect changes that are not inconsistent with the provisions of the warrants and that do not materially and adversely affect the interests of the holders of the warrants.

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Each warrant will entitle the holder to purchase for cash such common stock or preferred stock at the exercise price or such principal amount of debt securities as shall in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the warrants offered thereby. Warrants may be exercised as set forth in the prospectus supplement beginning on the date specified therein and continuing until the close of business on the expiration date set forth in the prospectus supplement. After the close of business on the expiration date, unexercised warrants will become void.

Upon receipt of payment and a warrant certificate properly completed and duly executed at the corporate trust office of the warrant agent or any other office indicated in the prospectus supplement, we will, as soon as practicable, forward the securities purchasable upon such exercise. If less than all of the warrants represented by such warrant certificate are exercised, a new warrant certificate will be issued for the remaining warrants. If we so indicate in the applicable prospectus supplement, holders of the warrants may surrender securities as all or part of the exercise price for warrants.

Prior to exercising their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise, including, in the case of warrants to purchase debt securities, the right to receive principal, premium, if any, or interest payments, on the debt securities purchasable upon exercise or to enforce covenants in the applicable indenture or, in the case of warrants to purchase common stock or preferred stock, the right to receive dividends or other distributions, if any, or payments upon our liquidation, dissolution or winding up or to exercise any voting rights.

Under the 1940 Act, we may generally only offer warrants provided that (i) the warrants expire by their terms within ten years, (ii) the exercise or conversion price is not less than the current market value at the date of issuance, (iii) our stockholders authorize the proposal to issue such warrants, and our board of directors approves such issuance on the basis that the issuance is in the best interests of the Company and its stockholders and (iv) if the warrants are accompanied by other securities, the warrants are not separately transferable unless no class of such warrants and the securities accompanying them has been publicly distributed. The 1940 Act also provides that the amount of our voting securities that would result from the exercise of all outstanding warrants, as well as options and rights, at the time of issuance may not exceed 25% of our outstanding voting securities.

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DESCRIPTION OF OUR DEBT SECURITIES

We may issue debt securities in one or more series. The specific terms of each series of debt securities will be described in this prospectus and in the particular prospectus supplement relating to that series. The prospectus supplement may or may not modify the general terms found in this prospectus and will be filed with the SEC. For a complete description of the terms of a particular series of debt securities, including any supplemental indenture, you should read both this prospectus and the prospectus supplement relating to that particular series.

As required by federal law for all bonds and notes of companies that are publicly offered, the debt securities are governed by a document called an indenture. An indenture is a contract between us and U.S. Bank National Association, a financial institution acting as trustee on your behalf, and is subject to and governed by the Trust Indenture Act of 1939, as amended. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, described in the second paragraph under Events of Default Remedies if an Event of Default Occurs. Second, the trustee performs certain administrative duties for us.

Because this section is a summary, it does not describe every aspect of the debt securities and the indenture. The following description summarizes the material provisions of the indenture. We urge you to read the indenture because it, and not this description, defines your rights as a holder of debt securities. For example, in this section, we use capitalized words to signify terms that are specifically defined in the indenture. We have filed the form of the indenture with the SEC. See Available Information for information on how to obtain a copy of the indenture.

A prospectus supplement, which will accompany this prospectus, will describe the particular terms of any series of debt securities being offered, including the following:

- the designation or title of the series of debt securities;
- the total principal amount of the series of debt securities;
- the percentage of the principal amount at which the series of debt securities will be offered;
- the date or dates on which principal will be payable;
- the rate or rates (which may be either fixed or variable) and/or the method of determining such rate or rates of interest, if any;
- the date or dates from which any interest will accrue, or the method of determining such date or dates, and the date or dates on which any interest will be payable;
- the terms for redemption, extension or early repayment, if any;
- the currencies in which the series of debt securities are issued and payable;
- whether the amount of payments of principal, premium or interest, if any, on a series of debt securities will be determined with reference to an index, formula or other method (which could be based on one or more currencies, commodities, equity indices or other indices) and how these amounts will be determined;

the place or places, if any, other than or in addition to the City of New York, of payment, transfer, conversion and/or exchange of the debt securities;

the denominations in which the offered debt securities will be issued;

the provision for any sinking fund;

any restrictive covenants;

any Events of Default;

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- whether the series of debt securities are issuable in certificated form;
- any provisions for defeasance or covenant defeasance;
- if applicable, U.S. federal income tax considerations relating to original issue discount;
- whether and under what circumstances we will pay additional amounts in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities rather than pay the additional amounts (and the terms of this option);
- any provisions for convertibility or exchangeability of the debt securities into or for any other securities;
- whether the debt securities are subject to subordination and the terms of such subordination;
- the listing, if any, on a securities exchange; and
- any other terms.

The debt securities may be secured or unsecured obligations. Unless the prospectus supplement states otherwise, principal (and premium, if any) and interest, if any, will be paid by us in immediately available funds.

We are permitted, under specified conditions, to issue multiple classes of indebtedness if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any indebtedness and other senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see Risk Factors Risks Relating to Our Business.

General

The indenture provides that any debt securities proposed to be sold under this prospectus and the attached prospectus supplement (offered debt securities) and any debt securities issuable upon the exercise of warrants or upon conversion or exchange of other offered securities (underlying debt securities), may be issued under the indenture in one or more series.

For purposes of this prospectus, any reference to the payment of principal of or premium or interest, if any, on debt securities will include additional amounts if required by the terms of the debt securities.

The indenture does not limit the amount of debt securities that may be issued thereunder from time to time. Debt securities issued under the indenture, when a single trustee is acting for all debt securities issued under the indenture, are called the indenture securities. The indenture also provides that there may be more than one trustee thereunder, each with respect to one or more different series of indenture securities. See Resignation of Trustee section below. At a time when two or more trustees are acting under the indenture, each with respect to only certain series, the term indenture securities means the one or more series of debt securities with respect to which each respective trustee is acting. In the event that there is more than one trustee under the indenture, the powers and trust obligations of each trustee described in this prospectus will extend only to the one or more series of indenture securities for which it is trustee. If two or more trustees are acting under the indenture, then the indenture securities for which each trustee is acting would be treated as if issued under separate indentures.

We refer you to the prospectus supplement for information with respect to any deletions from, modifications of or additions to the Events of Default or our covenants that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

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We have the ability to issue indenture securities with terms different from those of indenture securities previously issued and, without the consent of the holders thereof, to reopen a previous issue of a series of indenture securities and issue additional indenture securities of that series unless the reopening was restricted when that series was created.

Conversion and Exchange

If any debt securities are convertible into or exchangeable for other securities, the prospectus supplement will explain the terms and conditions of the conversion or exchange, including the conversion price or exchange ratio (or the calculation method), the conversion or exchange period (or how the period will be determined), if conversion or exchange will be mandatory or at the option of the holder or us, provisions for adjusting the conversion price or the exchange ratio and provisions affecting conversion or exchange in the event of the redemption of the underlying debt securities. These terms may also include provisions under which the number or amount of other securities to be received by the holders of the debt securities upon conversion or exchange would be calculated according to the market price of the other securities as of a time stated in the prospectus supplement.

Issuance of Securities in Registered Form

We may issue the debt securities in registered form, in which case we may issue them either in book-entry form only or in certificated form. Debt securities issued in book-entry form will be represented by global securities. We expect that we will usually issue debt securities in book-entry only form represented by global securities.

Book-Entry Holders

We will issue registered debt securities in book-entry form only, unless we specify otherwise in the applicable prospectus supplement. This means debt securities will be represented by one or more global securities registered in the name of a depositary that will hold them on behalf of financial institutions that participate in the depositary s book-entry system. These participating institutions, in turn, hold beneficial interests in the debt securities held by the depositary or its nominee. These institutions may hold these interests on behalf of themselves or customers.

Under the indenture, only the person in whose name a debt security is registered is recognized as the holder of that debt security. Consequently, for debt securities issued in book-entry form, we will recognize only the depositary as the holder of the debt securities and we will make all payments on the debt securities to the depositary. The depositary will then pass along the payments it receives to its participants, which in turn will pass the payments along to their customers who are the beneficial owners. The depositary and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the debt securities.

As a result, investors will not own debt securities directly. Instead, they will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depositary s book-entry system or holds an interest through a participant. As long as the debt securities are represented by one or more global securities, investors will be indirect holders, and not holders, of the debt securities.

Street Name Holders

In the future, we may issue debt securities in certificated form or terminate a global security. In these cases, investors may choose to hold their debt securities in their own names or in street name. Debt securities held in street name are registered in the name of a bank, broker or other financial institution chosen by the investor, and the investor would hold a beneficial interest in those debt securities through the account he or she maintains at that institution.

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For debt securities held in street name, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the debt securities are registered as the holders of those debt securities and we will make all payments on those debt securities to them. These institutions will pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. Investors who hold debt securities in street name will be indirect holders, and not holders, of the debt securities.

Legal Holders

Our obligations, as well as the obligations of the applicable trustee and those of any third parties employed by us or the applicable trustee, run only to the legal holders of the debt securities. We do not have obligations to investors who hold beneficial interests in global securities, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect holder of a debt security or has no choice because we are issuing the debt securities only in book-entry form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for the payment or notice even if that holder is required, under agreements with depositary participants or customers or by law, to pass it along to the indirect holders but does not do so. Similarly, if we want to obtain the approval of the holders for any purpose (for example, to amend an indenture or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of an indenture), we would seek the approval only from the holders, and not the indirect holders, of the debt securities. Whether and how the holders contact the indirect holders is up to the holders.

When we refer to you, we mean those who invest in the debt securities being offered by this prospectus, whether they are the holders or only indirect holders of those debt securities. When we refer to your debt securities, we mean the debt securities in which you hold a direct or indirect interest.

Special Considerations for Indirect Holders

If you hold debt securities through a bank, broker or other financial institution, either in book-entry form or in street name, we urge you to check with that institution to find out:

- how it handles securities payments and notices,
- whether it imposes fees or charges,
- how it would handle a request for the holders consent, if ever required,
- whether and how you can instruct it to send you debt securities registered in your own name so you can be a holder, if that is permitted in the future for a particular series of debt securities,
- how it would exercise rights under the debt securities if there were a default or other event triggering the need for holders to act to protect their interests, and
- if the debt securities are in book-entry form, how the depositary s rules and procedures will affect these matters.

Global Securities

As noted above, we usually will issue debt securities as registered securities in book-entry form only. A global security represents one or any other number of individual debt securities. Generally, all debt securities represented by the same global securities will have the same terms.

Each debt security issued in book-entry form will be represented by a global security that we deposit with and register in the name of a financial institution or its nominee that we select. The financial institution that we

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select for this purpose is called the depositary. Unless we specify otherwise in the applicable prospectus supplement, The Depository Trust Company, New York, New York, known as DTC, will be the depositary for all debt securities issued in book-entry form.

A global security may not be transferred to or registered in the name of anyone other than the depositary or its nominee, unless special termination situations arise. We describe those situations below under Special Situations when a Global Security Will Be Terminated . As a result of these arrangements, the depositary, or its nominee, will be the sole registered owner and holder of all debt securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depositary or with another institution that has an account with the depositary. Thus, an investor whose security is represented by a global security will not be a holder of the debt security, but only an indirect holder of a beneficial interest in the global security.

Special Considerations for Global Securities

As an indirect holder, an investor s rights relating to a global security will be governed by the account rules of the investor s financial institution and of the depositary, as well as general laws relating to securities transfers. The depositary that holds the global security will be considered the holder of the debt securities represented by the global security.

If debt securities are issued only in the form of a global security, an investor should be aware of the following:

- An investor cannot cause the debt securities to be registered in his or her name, and cannot obtain certificates for his or her interest in the debt securities, except in the special situations we describe below.

- An investor will be an indirect holder and must look to his or her own bank or broker for payments on the debt securities and protection of his or her legal rights relating to the debt securities, as we describe under Issuance of Securities in Registered Form above.

- An investor may not be able to sell interests in the debt securities to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form.

- An investor may not be able to pledge his or her interest in a global security in circumstances where certificates representing the debt securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective.

- The depositary s policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to an investor s interest in a global security. We and the trustee have no responsibility for any aspect of the depositary s actions or for its records of ownership interests in a global security. We and the trustee also do not supervise the depositary in any way.

- If we redeem less than all the debt securities of a particular series being redeemed, DTC s practice is to determine by lot the amount to be redeemed from each of its participants holding that series.

- An investor is required to give notice of exercise of any option to elect repayment of its debt securities, through its participant, to the applicable trustee and to deliver the related debt securities by causing its participant to transfer its interest in those debt securities, on DTC s records, to the applicable trustee.

DTC requires that those who purchase and sell interests in a global security deposited in its book-entry system use immediately available funds. Your broker or bank may also require you to use immediately available funds when purchasing or selling interests in a global security.

Financial institutions that participate in the depositary s book-entry system, and through which an investor holds its interest in a global security, may also have their own policies affecting payments,

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notices and other matters relating to the debt securities. There may be more than one financial intermediary in the chain of ownership for an investor. We do not monitor and are not responsible for the actions of any of those intermediaries.

Special Situations when a Global Security will be Terminated

In a few special situations described below, a global security will be terminated and interests in it will be exchanged for certificates in non-book-entry form (certificated securities). After that exchange, the choice of whether to hold the certificated debt securities directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a global security transferred on termination to their own names, so that they will be holders. We have described the rights of legal holders and street name investors under Issuance of Securities in Registered Form above.

The prospectus supplement may list situations for terminating a global security that would apply only to the particular series of debt securities covered by the prospectus supplement. If a global security is terminated, only the depositary, and not we or the applicable trustee, is responsible for deciding the names of the institutions in whose names the debt securities represented by the global security will be registered and, therefore, who will be the holders of those debt securities.

Payment and Paying Agents

We will pay interest to the person listed in the applicable trustee s records as the owner of the debt security at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the debt security on the interest due date. That day, often approximately two weeks in advance of the interest due date, is called the record date. Because we will pay all the interest for an interest period to the holders on the record date, holders buying and selling debt securities must work out between themselves the appropriate purchase price. The most common manner is to adjust the sales price of the debt securities to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period. This prorated interest amount is called accrued interest.

Payments on Global Securities

We will make payments on a global security in accordance with the applicable policies of the depositary as in effect from time to time. Under those policies, we will make payments directly to the depositary, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder s right to those payments will be governed by the rules and practices of the depositary and its participants.

Payments on Certificated Securities

We will make payments on a certificated debt security as follows. We will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at his or her address shown on the trustee s records as of the close of business on the regular record date. We will make all payments of principal and premium, if any, by check at the office of the applicable trustee in New York, New York and/or at other offices that may be specified in the prospectus supplement or in a notice to holders against surrender of the debt security.

Alternatively, if the holder asks us to do so, we will pay any amount that becomes due on the debt security by wire transfer of immediately available funds to an account at a bank in New York City, on the due date. To request payment by wire, the holder must give the applicable trustee or other paying agent appropriate transfer instructions at least 15 business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person who is the holder on the relevant regular record date. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.

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Payment when Offices are Closed

If any payment is due on a debt security on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the indenture as if they were made on the original due date, except as otherwise indicated in the attached prospectus supplement. Such payment will not result in a default under any debt security or the indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their debt securities.

Events of Default

You will have rights if an Event of Default occurs in respect of the debt securities of your series and is not cured, as described later in this subsection.

The term Event of Default in respect of the debt securities of your series means any of the following (unless the prospectus supplement relating to such debt securities states otherwise):

- we do not pay the principal of, or any premium on, a debt security of the series on its due date, and do not cure this default within five days;

- we do not pay interest on a debt security of the series when due, and such default is not cured within 30 days;

- we do not deposit any sinking fund payment in respect of debt securities of the series on its due date, and do not cure this default within five days;

- we remain in breach of a covenant in respect of debt securities of the series for 60 days after we receive a written notice of default stating we are in breach. The notice must be sent by either the trustee or holders of at least 25% of the principal amount of debt securities of the series;

- we file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur and remain undischarged or unstayed for a period of 60 days;

- on the last business day of each of 24 consecutive calendar months, we have an asset coverage of less than 100%; and

- any other Event of Default in respect of debt securities of the series described in the applicable prospectus supplement occurs.

An Event of Default for a particular series of debt securities does not necessarily constitute an Event of Default for any other series of debt securities issued under the same or any other indenture. The trustee may withhold notice to the holders of debt securities of any default, except in the payment of principal, premium or interest, if it considers the withholding of notice to be in the best interests of the holders.

Remedies if an Event of Default Occurs

If an Event of Default has occurred and has not been cured, the trustee or the holders of at least 25% in principal amount of the debt securities of the affected series may declare the entire principal amount of all the debt securities of that series to be due and immediately payable. This is called a declaration of acceleration of maturity. In certain circumstances, a declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the debt securities of the affected series.

The trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability (called an indemnity). If reasonable

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indemnity is provided, the holders of a majority in principal amount of the outstanding debt securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass your trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the debt securities, the following must occur:

- the holder must give your trustee written notice that an Event of Default has occurred and remains uncured;
- the holders of at least 25% in principal amount of all outstanding debt securities of the relevant series must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action;
- the trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity; and
- the holders of a majority in principal amount of the debt securities must not have given the trustee a direction inconsistent with the above notice during that 60 day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your debt securities on or after the due date.

Holders of a majority in principal amount of the debt securities of the affected series may waive any past defaults other than:

- the payment of principal, any premium or interest; or
- in respect of a covenant that cannot be modified or amended without the consent of each holder.

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.

Each year, we will furnish to each trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the indenture and the debt securities, or else specifying any default.

Merger or Consolidation

Under the terms of the indenture, we are generally permitted to consolidate or merge with another entity. We may also be permitted to sell all or substantially all of our assets to another entity. However, unless the prospectus supplement relating to certain debt securities states otherwise, we may not take any of these actions unless all the following conditions are met:

- where we merge out of existence or sell our assets, the resulting entity must agree to be legally responsible for our obligations under the debt securities;

immediately after giving effect to such transaction, no Default or Event of Default shall have happened and be continuing;

under the indenture, no merger or sale of assets may be made if as a result any of our property or assets or any property or assets of one of our subsidiaries, if any, would become subject to any mortgage, lien or other encumbrance unless either (a) the mortgage, lien or other encumbrance could be created

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pursuant to the limitation on liens covenant in the indenture without equally and ratably securing the indenture securities or (b) the indenture securities are secured equally and ratably with or prior to the debt secured by the mortgage, lien or other encumbrance;

we must deliver certain certificates and documents to the trustee; and

we must satisfy any other requirements specified in the prospectus supplement relating to a particular series of debt securities.

Modification or Waiver

There are three types of changes we can make to the indenture and the debt securities issued thereunder.

Changes Requiring Approval

First, there are changes that we cannot make to debt securities without specific approval of all of the holders. The following is a list of those types of changes:

change the stated maturity of the principal of or interest on a debt security;

reduce any amounts due on a debt security;

reduce the amount of principal payable upon acceleration of the maturity of a security following a default;

adversely affect any right of repayment at the holder s option;

change the place (except as otherwise described in the prospectus or prospectus supplement) or currency of payment on a debt security;

impair your right to sue for payment;

adversely affect any right to convert or exchange a debt security in accordance with its terms;

modify the subordination provisions in the indenture in a manner that is adverse to holders of the debt securities;

reduce the percentage of holders of debt securities whose consent is needed to modify or amend the indenture;

reduce the percentage of holders of debt securities whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults;

- modify any other aspect of the provisions of the indenture dealing with supplemental indentures, modification and waiver of past defaults, changes to the quorum or voting requirements or the waiver of certain covenants; and

- change any obligation we have to pay additional amounts.

Changes Not Requiring Approval

The second type of change does not require any vote by the holders of the debt securities. This type is limited to clarifications and certain other changes that would not adversely affect holders of the outstanding debt securities in any material respect. We also do not need any approval to make any change that affects only debt securities to be issued under the indenture after the change takes effect.

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Changes Requiring Majority Approval

Any other change to the indenture and the debt securities would require the following approval:

- if the change affects only one series of debt securities, it must be approved by the holders of a majority in principal amount of that series; and
- if the change affects more than one series of debt securities issued under the same indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

The holders of a majority in principal amount of all of the series of debt securities issued under an indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants in that indenture. However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under Changes Requiring Approval.

Further Details Concerning Voting

When taking a vote, we will use the following rules to decide how much principal to attribute to a debt security:

- for original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of these debt securities were accelerated to that date because of a default;
- for debt securities whose principal amount is not known (for example, because it is based on an index), we will use a special rule for that debt security described in the prospectus supplement; and
- for debt securities denominated in one or more foreign currencies, we will use the U.S. dollar equivalent.

Debt securities will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption. Debt securities will also not be eligible to vote if they have been fully defeased as described later under Defeasance Full Defeasance.

We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding indenture securities that are entitled to vote or take other action under the indenture. If we set a record date for a vote or other action to be taken by holders of one or more series, that vote or action may be taken only by persons who are holders of outstanding indenture securities of those series on the record date and must be taken within eleven months following the record date.

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the debt securities or request a waiver.

Defeasance

The following provisions will be applicable to each series of debt securities unless we state in the applicable prospectus supplement that the provisions of covenant defeasance and full defeasance will not be applicable to that series.

Covenant Defeasance

Under current U.S. federal tax law, we can make the deposit described below and be released from some of the restrictive covenants in the indenture under which the particular series was issued. This is called covenant

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defeasance. In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your debt securities. If applicable, you also would be released from the subordination provisions as described under the Indenture Provisions Subordination section below. In order to achieve covenant defeasance, we must do the following:

- if the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates;

- we must deliver to the trustee a legal opinion of our counsel confirming that, under current U.S. federal income tax law, we may make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity; and

- we must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, as amended, and a legal opinion and officers certificate stating that all conditions precedent to covenant defeasance have been complied with.

If we accomplish covenant defeasance, you can still look to us for repayment of the debt securities if there were a shortfall in the trust deposit or the trustee is prevented from making payment. For example, if one of the remaining Events of Default occurred (such as our bankruptcy) and the debt securities became immediately due and payable, there might be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

Full Defeasance

If there is a change in U.S. federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the debt securities of a particular series (called full defeasance) if we put in place the following other arrangements for you to be repaid:

- if the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and United States government or United States government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates.

- we must deliver to the trustee a legal opinion confirming that there has been a change in current U.S. federal tax law or an IRS ruling that allows us to make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity. Under current U.S. federal tax law, the deposit and our legal release from the debt securities would be treated as though we paid you your share of the cash and notes or bonds at the time the cash and notes or bonds were deposited in trust in exchange for your debt securities and you would recognize gain or loss on the debt securities at the time of the deposit;

- we must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, as amended, and a legal opinion and officers certificate stating that all conditions precedent to defeasance have been complied with;

- Defeasance must not result in a breach of the indenture or any other material agreements; and

Satisfy the conditions for covenant defeasance contained in any supplemental indentures.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the debt securities. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent. If applicable, you would also be released from the subordination provisions described later under Indenture Provisions Subordination.

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Form, Exchange and Transfer of Certificated Registered Securities

Holders may exchange their certificated securities, if any, for debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed.

Holders may exchange or transfer their certificated securities, if any, at the office of their trustee. We have appointed the trustee to act as our agent for registering debt securities in the names of holders transferring debt securities. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their certificated securities, if any, but they may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder s proof of legal ownership.

If we have designated additional transfer agents for your debt security, they will be named in your prospectus supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any certificated securities of a particular series are redeemable and we redeem less than all the debt securities of that series, we may block the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any certificated securities selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security that will be partially redeemed.

Resignation of Trustee

Each trustee may resign or be removed with respect to one or more series of indenture securities provided that a successor trustee is appointed to act with respect to these series. In the event that two or more persons are acting as trustee with respect to different series of indenture securities under the indenture, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

Indenture Provisions Subordination

Upon any distribution of our assets upon our dissolution, winding up, liquidation or reorganization, the payment of the principal of (and premium, if any) and interest, if any, on any indenture securities denominated as subordinated debt securities is to be subordinated to the extent provided in the indenture in right of payment to the prior payment in full of all senior indebtedness (as defined below), but our obligation to you to make payment of the principal of (and premium, if any) and interest, if any, on such subordinated debt securities will not otherwise be affected. In addition, no payment on account of principal (or premium, if any), sinking fund or interest, if any, may be made on such subordinated debt securities at any time unless full payment of all amounts due in respect of the principal (and premium, if any), sinking fund and interest on senior indebtedness has been made or duly provided for in money or money s worth.

In the event that, notwithstanding the foregoing, any payment by us is received by the trustee in respect of subordinated debt securities or by the holders of any of such subordinated debt securities before all senior indebtedness is paid in full, the payment or distribution must be paid over to the holders of the senior indebtedness or on their behalf for application to the payment of all the senior indebtedness remaining unpaid until all the senior indebtedness has been paid in full, after giving effect to any concurrent payment or distribution to the holders of the senior indebtedness. Subject to the payment in full of all senior indebtedness upon this distribution by us, the holders of such subordinated debt securities will be subrogated to the rights of the holders of the senior indebtedness to the extent of payments made to the holders of the senior indebtedness out of the distributive share of such subordinated debt securities.

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By reason of this subordination, in the event of a distribution of our assets upon our insolvency, certain of our senior creditors may recover more, ratably, than holders of any subordinated debt securities. The indenture provides that these subordination provisions will not apply to money and securities held in trust under the defeasance provisions of the indenture.

Senior indebtedness is defined in the indenture as the principal of (and premium, if any) and unpaid interest on:

- our indebtedness (including indebtedness of others guaranteed by us), whenever created, incurred, assumed or guaranteed, for money borrowed (other than indenture securities issued under the indenture and denominated as subordinated debt securities), unless in the instrument creating or evidencing the same or under which the same is outstanding it is provided that this indebtedness is not senior or prior in right of payment to the subordinated debt securities; and

- renewals, extensions, modifications and refinancings of any of this indebtedness.

If this prospectus is being delivered in connection with the offering of a series of indenture securities denominated as subordinated debt securities, the accompanying prospectus supplement to this prospectus will set forth the approximate amount of our senior indebtedness outstanding as of a recent date.

Secured Indebtedness

Certain of our indebtedness, including certain series of indenture securities, may be secured. The prospectus supplement for each series of indenture securities will describe the terms of any security interest for such series and will indicate the approximate amount of our secured indebtedness as of a recent date. In the event of a distribution of our assets upon our insolvency, the holders of unsecured indenture securities may recover less, ratably, than holders of any of our secured indebtedness.

The Trustee under the Indenture

U.S. Bank National Association will serve as the trustee under the indenture.

Certain Considerations Relating to Foreign Currencies

Debt securities denominated or payable in foreign currencies may entail significant risks. These risks include the possibility of significant fluctuations in the foreign currency markets, the imposition or modification of foreign exchange controls and potential illiquidity in the secondary market. These risks will vary depending upon the currency or currencies involved and will be more fully described in the applicable prospectus supplement.

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PLAN OF DISTRIBUTION

We may offer, from time to time, in one or more offerings or series, up to $400,000,000 of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our common stock or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, in one or more underwritten public offerings, at-the-market offerings to or through a market maker or into an existing trading market for the securities, on an exchange, or otherwise, negotiated transactions, block trades, best efforts, auctions or a combination of these methods. The holders of our common stock will indirectly bear any fees and expenses in connection with any such offerings. We may sell the securities through underwriters or dealers, directly to one or more purchasers, including existing stockholders in a rights offering, through agents or through a combination of any such methods of sale. Any underwriter or agent involved in the offer and sale of the securities will be named in the applicable prospectus supplement. A prospectus supplement or supplements will also describe the terms of the offering of the securities, including: the purchase price of the securities and the proceeds we will receive from the sale; any over-allotment options under which underwriters may purchase additional securities from us; any agency fees or underwriting discounts and other items constituting agents or underwriters compensation; any expenses we incur in connection with the sale of such securities; the public offering price; any discounts or concessions allowed or re-allowed or paid to dealers; and any securities exchange or market on which the securities may be listed. Only underwriters named in the prospectus supplement will be underwriters of the securities offered by the prospectus supplement.

The distribution of the securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, at negotiated prices, or at prices determined by an auction process, provided, however, that the offering price per share of our common stock, less any underwriting commissions or discounts, must equal or exceed the net asset value per share of our common stock at the time of the offering except (1) in connection with a rights offering to our existing stockholders, (2) with the consent of the majority of our voting securities or (3) under such circumstances as the SEC may permit. The price at which securities may be distributed may represent a discount from prevailing market prices. Although we are not currently authorized to issue shares of our common stock at a price below our net asset value per share, we may seek stockholder approval of this proposal again at a special meeting of stockholders or our next annual meeting of stockholders. Our Board of Directors, subject to its fiduciary duties and regulatory requirements, has the discretion to determine the amount of the discount, and as a result, the discount could be up to 100% of net asset value per share.

In connection with the sale of our securities, underwriters or agents may receive compensation from us or from purchasers of our securities, for whom they may act as agents, in the form of discounts, concessions or commissions. Underwriters may sell our securities to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of our securities may be deemed to be underwriters under the Securities Act, and any discounts and commissions they receive from us and any profit realized by them on the resale of our securities may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified and any such compensation received from us will be described in the applicable prospectus supplement.

Any underwriter may engage in over-allotment, stabilizing transactions, short-covering transactions and penalty bids in accordance with Regulation M under the Exchange Act. Over-allotment involves sales in excess of the offering size, which create a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum price. Syndicate-covering or other short-covering transactions involve purchases of the securities, either through exercise of the over-allotment option or in the open market after the distribution is completed, to cover short positions. Penalty bids permit the underwriters to reclaim a selling concession from a dealer when the securities originally sold by the dealer are purchased in a stabilizing or covering transaction to cover short positions. Those activities may cause the price of the securities to be higher than it would otherwise be. If commenced, the underwriters may discontinue any of the activities at any time.

Any underwriters that are qualified market makers on the NYSE may engage in passive market making transactions in our common stock on the NYSE in accordance with Regulation M under the Exchange Act, during the business day prior to the pricing of the offering, before the commencement of offers or sales of our common stock. Passive market makers must comply with applicable volume and price limitations and must be identified as passive market makers. In general, a passive market maker must display its bid at a price not in excess of the highest independent bid for such security; if all independent bids are lowered below the passive market maker s bid, however, the passive market maker s bid must then be lowered when certain purchase limits are exceeded. Passive market making may stabilize the market price of the securities at a level above that which might otherwise prevail in the open market and, if commenced, may be discontinued at any time.

We may sell securities directly or through agents we designate from time to time. We will name any agent involved in the offering and sale of securities and we will describe any commissions we will pay the agent in the prospectus supplement. Unless the prospectus supplement states otherwise, our agent will act on a best-efforts basis for the period of its appointment.

Unless otherwise specified in the applicable prospectus supplement, each class or series of securities will be a new issue with no trading market, other than our common stock, which is traded on the NYSE. We may elect to list any other class or series of securities on any exchanges, but we are not obligated to do so. We cannot guarantee the liquidity of the trading markets for any securities.

Under agreements that we may enter, underwriters, dealers and agents who participate in the distribution of our securities may be entitled to indemnification by us against certain liabilities, including liabilities under the Securities Act, or contribution with respect to payments that the agents or underwriters may make with respect to these liabilities. Underwriters, dealers and agents may engage in transactions with, or perform services for, us in the ordinary course of business.

If so indicated in the applicable prospectus supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase our securities from us pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of our securities shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third parties in such sale transactions will be underwriters and, if not identified in this prospectus, will be identified in the applicable prospectus supplement.

In compliance with the guidelines of the Financial Industry Regulatory Authority, the maximum compensation to the underwriters or dealers in connection with the sale of our securities pursuant to this prospectus and the accompanying supplement to this prospectus may not exceed 8% of the aggregate offering price of the securities as set forth on the cover page of the supplement to this prospectus.

In order to comply with the securities laws of certain states, if applicable, our securities offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers.

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BROKERAGE ALLOCATION AND OTHER PRACTICES

Because we generally acquire and dispose of our investments in privately negotiated transactions, we rarely use brokers in the normal course of business. In those cases where we do use a broker, we do not execute transactions through any particular broker or dealer, but will seek to obtain the best net results for Hercules, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm s risk and skill in positioning blocks of securities. While we generally seek reasonably competitive execution costs, we may not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, we may select a broker based partly upon brokerage or research services provided to us. In return for such services, we may pay a higher commission than other brokers would charge if we determine in good faith that such commission is reasonable in relation to the services provided. For the three-months ended March 31, 2014, we paid approximately $32,000 in brokerage commissions. For the years ended December 31, 2013, 2012 and 2011 we paid approximately $37,500, $13,700 and $9,000 in brokerage commissions, respectively.

CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR

Securities we hold in connection with our investments are held under a custody agreement with Union Bank of California. The address of the custodian is 475 Sansome Street, 15th Floor, San Francisco, California 94111. We have also entered into a custody agreement with U.S. Bank National Association, which is located at One Federal Street, Third Floor, Boston, Massachusetts 02110. The transfer agent and registrar for our common stock, American Stock Transfer & Trust Company, will act as our transfer agent, dividend paying and reinvestment agent and registrar. The principal business address of the transfer agent is 6201 15th Avenue, Brooklyn, New York 11219.

LEGAL MATTERS

Certain legal matters regarding the securities offered by this prospectus will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, D.C. Certain legal matters will be passed upon for underwriters, if any, by the counsel named in the prospectus supplement.

EXPERTS

The consolidated financial statements as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control over Financial Reporting) as of December 31, 2013 included in this Prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The information under the caption Senior Securities as of December 31, 2009, included elsewhere herein, has been derived from our financial statements audited by Ernst & Young LLP, an independent registered public accounting firm as set forth in their supplementary report appearing elsewhere herein. Such information has been included herein, in reliance upon such supplementary report given on the authority of such firm as experts in accounting and auditing.

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AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to our securities offered by this prospectus. The registration statement contains additional information about us and our securities being offered by this prospectus.

We file annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement of which this prospectus forms a part and the related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549-0102. You may obtain information on the operation of the Public Reference Room by calling the SEC at 202-551-8090. The SEC maintains an Internet website that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC s Internet website at http://www.sec.gov. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following E-mail address: publicinfo@sec.gov, or by writing the SEC s Public Reference Section, Washington, D.C. 20549-0102.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Board of Directors and Shareholders of

Hercules Technology Growth Capital, Inc.

In our opinion, the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, and the related consolidated statements of operations, of changes in net assets, and of cash flows present fairly, in all material respects, the financial position of Hercules Technology Growth Capital, Inc. and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework* 1992 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing on page 95. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. Our procedures included confirmation of securities at December 31, 2013 by correspondence with the custodian, borrowers and brokers, and where replies were not received, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Francisco, CA

February 27, 2014

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(in thousands, except per share data)

	December 31, 2013	December 31, 2012
Assets		
Investments:		
Non-control/Non-affiliate investments (cost of $891,059 and $896,031, respectively)	$ 899,314	$ 894,428
Affiliate investments (cost of $15,238 and $18,307, respectively)	10,981	11,872
Total investments, at value (cost of $906,297 and $914,338, respectively)	910,295	906,300
Cash and cash equivalents	268,368	182,994
Restricted cash	6,271	
Interest receivable	8,962	9,635
Other assets	27,819	24,714
Total assets	$ 1,221,715	$ 1,123,643
Liabilities		
Accounts payable and accrued liabilities	$ 14,268	$ 11,575
Long-term Liabilities (Convertible Senior Notes)	72,519	71,436
Asset-Backed Notes	89,557	129,300
2019 Notes	170,364	170,364
Long-term SBA Debentures	225,000	225,000
Total liabilities	$ 571,708	$ 607,675
Commitments and Contingencies (Note 10)		
Net assets consist of:		
Common stock, par value	62	53
Capital in excess of par value	656,594	564,508
Unrealized appreciation/(depreciation) on investments	3,598	(7,947)
Accumulated realized losses on investments	(15,240)	(36,916)
Undistributed net investment income/(Distributions in excess of investment income)	4,993	(3,730)
Total net assets	$ 650,007	$ 515,968
Total liabilities and net assets	$ 1,221,715	$ 1,123,643
Shares of common stock outstanding ($0.001 par value, 100,000,000 authorized)	61,837	52,925
Net asset value per share	$ 10.51	$ 9.75

See notes to consolidated financial statements.

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The following table presents the assets and liabilities of our consolidated securitization trust for the asset-backed notes (see Note 4), which is a variable interest entity (VIE). The assets of our securitization VIE can only be used to settle obligations of our consolidated securitization VIE, these liabilities are only the obligations of our consolidated securitization VIE, and the creditors (or beneficial interest holders) do not have recourse to our general credit. These assets and liabilities are included in the Consolidated Statements of Assets and Liabilities above.

	December 31,	
(Dollars in thousands)	**2013**	**2012**
ASSETS		
Restricted Cash	$ 6,271	$
Total investments, at value (cost of $166,513 and $0, respectively)	165,445	226,997
Total assets	$ 171,716	$ 226,997
LIABILITIES		
Asset-Backed Notes	$ 89,557	$ 129,300
Total liabilities	$ 89,557	$ 129,300

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	For the Years Ended December 31,		
	2013	**2012**	**2011**
Investment income:			
Interest Income			
Non-Control/Non-Affiliate investments	$ 121,302	$ 85,258	$ 69,552
Affiliate investments	2,369	2,345	
Control investments			794
Total interest income	123,671	87,603	70,346
Fees			
Non-Control/Non-Affiliate investments	16,016	9,897	9,400
Affiliate investments	26	20	14
Control investments			95
Total fees	16,042	9,917	9,509
Total investment income	139,713	97,520	79,855
Operating expenses:			
Interest	30,334	19,835	13,252
Loan fees	4,807	3,917	2,635
General and administrative	9,354	8,108	7,992
Employee Compensation:			
Compensation and benefits	16,179	13,326	13,260
Stock-based compensation	5,974	4,227	3,128
Total employee compensation	22,153	17,553	16,388
Total operating expenses	66,648	49,413	40,267
Net investment income	73,065	48,107	39,588
Net realized gain on investments			
Non-Control/Non-Affiliate investments	14,836	3,168	2,741
Total net realized gain on investments	14,836	3,168	2,741
Net increase (decrease) in unrealized appreciation on investments			
Non-Control/Non-Affiliate investments	12,370	(2,448)	(3,976)
Affiliate investments	(825)	(2,068)	3,425
Control investments			5,158
Total net unrealized appreciation (depreciation) on investments	11,545	(4,516)	4,607
Total net realized and unrealized gain (loss)	26,381	(1,348)	7,348
Net increase in net assets resulting from operations	$ 99,446	$ 46,759	$ 46,936

Net investment income before investment gains and losses per common share:			
Basic	$ 1.22	$ 0.96	$ 0.91
Change in net assets per common share:			
Basic	$ 1.67	$ 0.93	$ 1.08
Diluted	$ 1.63	$ 0.93	$ 1.07
Weighted average shares outstanding			
Basic	58,838	49,068	42,988
Diluted	60,292	49,156	43,299

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(dollars and shares in thousands)

	Common Stock							
	Shares	Par Value	Capital in excess of par value	Unrealized Appreciation on Investments	Accumulated Realized Gains (Losses) on Investments	Undistributed net investment income/ (Distributions in excess of investment income)	Provision for Income Taxes on Investment Gains	Net Assets
Balance at December 31, 2010	43,444	$ 43	$ 477,549	$ (8,038)	$ (51,033)	$ (5,648)	$ (342)	$ 412,531
Net increase in net assets resulting from operations				4,607	2,741	39,588		46,936
Issuance of common stock	188	1	981					982
Issuance of common stock under restricted stock plan	140							
Issuance of common stock as stock dividend	167		1,649					1,649
Retired shares from net issuance	(86)		(952)					(952)
Issuance of the Convertible Senior Notes (see Note 4)			5,190					5,190
Dividends declared						(38,490)		(38,490)
Stock-based compensation			3,195					3,195
Tax Reclassification of stockholders equity in accordance with generally accepted accounting principles			(3,368)		5,250	(1,882)		
Balance at December 31, 2011	43,853	$ 44	$ 484,244	$ (3,431)	$ (43,042)	$ (6,432)	$ (342)	$ 431,041
Net increase in net assets resulting from operations		$	$	$ (4,516)	$ 3,168	$ 48,107	$	$ 46,759
Issuance of common stock	578	1	3,287					3,288
Issuance of common stock under restricted stock plan	505							
Issuance of common stock as stock dividend.	219		2,305					2,305
Retired shares from net issuance	(330)		(4,625)					(4,625)
Public Offering	8,100	8	80,872					80,880
Dividends declared						(47,983)		(47,983)
Stock-based compensation			4,303					4,303
Tax Reclassification of stockholders equity in accordance with generally accepted accounting principles			(5,878)		2,958	2,920		
Balance at December 31, 2012	52,925	$ 53	$ 564,508	$ (7,947)	$ (36,916)	$ (3,388)	$ (342)	$ 515,968
Net increase in net assets resulting from operations		$	$	$ 11,545	$ 14,836	$ 73,065	$	$ 99,446
Issuance of common stock	2,019	2	25,245					25,247
Issuance of common stock under restricted stock plan	423	1	(1)					
Issuance of common stock as stock dividend	159		2,201					2,201
Retired shares from net issuance	(1,739)	(2)	(27,990)					(27,992)
Public Offering	8,050	8	95,529					95,537
Dividends declared						(66,454)		(66,454)

Stock-based compensation			6,054					6,054
Tax Reclassification of stockholders equity in accordance with generally accepted accounting principles			(8,952)		6,840	2,112		
Balance at December 31, 2013	61,837	$ 62	$ 656,594	$ 3,598	$ (15,240)	$ 5,335	$ (342)	$ 650,007

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

	December 31, 2013	2012	2011
Cash flows from operating activities:			
Net increase in net assets resulting from operations	$ 99,446	$ 46,759	$ 46,936
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:			
Purchase of investments	(487,558)	(507,098)	(445,066)
Principal payments received on investments	477,535	245,777	247,325
Proceeds from sale of investments	44,832	25,948	17,733
Net (increase) decrease in unrealized (appreciation) / depreciation on investments	(11,545)	4,516	(4,607)
Net realized gain on investments	(14,836)	(3,048)	(2,741)
Accretion of paid-in-kind principal	(3,103)	(1,400)	(1,943)
Accretion of loan discounts	(6,652)	(5,441)	(6,999)
Accretion of loan discount on Convertible Senior Notes	1,083	1,083	767
Accretion of loan exit fees	(9,251)	(3,986)	(94)
Change in deferred loan origination revenue	1,409	2,301	2,420
Unearned fees related to unfunded commitments	(3,087)	(1,900)	615
Amortization of debt fees and issuance costs	4,044	1,560	1,688
Depreciation	252	289	348
Stock-based compensation and amortization of restricted stock grants	6,054	4,303	3,195
Change in operating assets and liabilities:			
Interest and fees receivable (payable)	672	(3,815)	(1,300)
Prepaid expenses and other assets	2,488	(988)	318
Accounts payable	54	279	(563)
Accrued liabilities	1,757	926	2,443
Net cash provided by (used in) operating activities	103,594	(193,935)	(139,525)
Cash flows from investing activities:			
Purchases of capital equipment	(311)	(87)	(189)
Investment in restricted cash	(6,271)		
Other long-term assets			(25)
Net cash used in investing activities	(6,582)	(87)	(214)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net	92,376	79,647	30
Dividends paid	(64,252)	(45,678)	(36,843)
Issuance of Convertible Senior Notes			75,000
Issuance of 2019 Notes Payable		170,365	
Issuance of Asset-Backed Notes		129,300	
Repayments of Asset-Backed Notes	(39,743)		
Borrowings of credit facilities		64,000	92,500
Repayments of credit facilities		(74,228)	(27,313)
Cash paid for debt issuance costs		(10,864)	(3,110)
Fees paid for credit facilities and debentures	(19)		(3,065)
Net cash provided by (used in) financing activities	(11,638)	312,542	97,199
Net increase (decrease) in cash and cash equivalents	85,374	118,520	(42,540)
Cash and cash equivalents at beginning of year	182,994	64,474	107,014
Cash and cash equivalents at end of year	$ 268,368	$ 182,994	$ 64,474

Supplemental disclosures:			
Interest paid	$ 25,245	$ 18,928	$ 11,270
Income taxes paid	$ 85	$ 44	$ 66
Stock dividend	$ 2,201	$ 2,305	$ 1,649

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2013

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Maturity Date	Interest Rate and Floor	Principal Amount	Cost[2]	Value[3]
Debt							
Biotechnology Tools							
1-5 Years Maturity							
Labcyte, Inc.[11]	Biotechnology Tools	Senior Secured	June 2016	Interest rate PRIME + 6.70% or Floor rate of 9.95%	$ 4,270	$ 4,323	$ 4,289
Subtotal: 1-5 Years Maturity						4,323	4,289
Subtotal: Biotechnology Tools (0.66%)*						4,323	4,289
Energy Technology							
Under 1 Year Maturity							
American Superconductor Corporation[3][11]	Energy Technology	Senior Secured	December 2014	Interest rate PRIME + 7.25% or Floor rate of 11.00%	$ 4,615	4,991	4,991
Brightsource Energy, Inc.	Energy Technology	Senior Secured	January 2014	Interest rate Prime + 8.25% or Floor rate of 11.50%	$ 15,000	15,886	15,886
Enphase Energy, Inc.[11]	Energy Technology	Senior Secured	June 2014	Interest rate PRIME + 5.75% or Floor rate of 9.00%	$ 1,315	1,358	1,358
Subtotal: Under 1 Year Maturity						22,236	22,236
1-5 Years Maturity							
Agrivida, Inc.	Energy Technology	Senior Secured	December 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 6,000	5,887	5,770
American Superconductor Corporation[3][11]	Energy Technology	Senior Secured	November 2016	Interest rate PRIME + 7.25% or Floor rate of 11.00%	$ 10,000	9,801	9,801
APTwater, Inc	Energy Technology	Senior Secured	April 2017	Interest rate PRIME + 6.75% or Floor rate of 10.00%, PIK Interest 2.75%	$ 18,085	17,874	17,874
BioAmber, Inc.[5][10]	Energy Technology	Senior Secured	June 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 25,000	25,298	25,798
Enphase Energy, Inc.[11]	Energy Technology	Senior Secured	August 2016	Interest rate PRIME + 8.25% or Floor rate of 11.50%	$ 7,400	7,422	7,314
Fluidic, Inc.	Energy Technology	Senior Secured	March 2016	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 5,000	4,922	4,922
Fulcrum Bioenergy, Inc.[11]	Energy Technology	Senior Secured	November 2016	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 10,000	9,944	9,694
Glori Energy, Inc.[11]	Energy Technology	Senior Secured	June 2015	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 5,333	5,457	5,414
Polyera Corporation	Energy Technology	Senior Secured	June 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 5,809	5,797	5,686
SCIEnergy, Inc.[4]	Energy Technology	Senior Secured	September 2015	Interest rate PRIME + 8.75% or Floor rate of 12.00%	$ 4,448	4,596	4,685
Scifiniti (pka Integrated Photovoltaics, Inc.)	Energy Technology	Senior Secured	February 2015	Interest rate PRIME + 7.38% or Floor rate of 10.63%	$ 1,463	1,443	1,429
Stion Corporation.[4][6]		Senior Secured			$ 4,571	4,005	4,096

	Energy Technology		February 2015	Interest rate PRIME + 6.75% or Floor rate of 10.00%			
TAS Energy, Inc.	Energy Technology	Senior Secured	February 2015	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 15,000	15,277	15,421
	Energy Technology	Senior Secured	February 2015	Interest rate PRIME + 6.25% or Floor rate of 9.50%	$ 4,503	4,374	4,338
Total TAS Energy, Inc.						19,651	19,760
TPI Composites, Inc.	Energy Technology	Senior Secured	June 2016	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 15,000	14,888	14,889
Subtotal: 1-5 Years Maturity						136,985	137,131
Subtotal: Energy Technology (24.52%)*(13)						159,221	159,367

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See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2013

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Communications & Networking							
1-5 Years Maturity							
OpenPeak, Inc.(11)	Communications & Networking	Senior Secured	July 2015	Interest rate PRIME + 8.75% or Floor rate of 12.00%	$ 10,029	$ 10,714	$ 10,814
Spring Mobile Solutions, Inc.	Communications & Networking	Senior Secured	November 2016	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 20,000	19,682	19,875
Subtotal: 1-5 Years Maturity						30,396	30,690
Subtotal: Communications & Networking (4.72%)*						30,396	30,690
Drug Delivery							
1-5 Years Maturity							
AcelRx Pharmaceuticals, Inc.(3)(10)	Drug Delivery	Senior Secured	October 2017	Interest rate PRIME + 3.85% or Floor rate of 9.10%	$ 15,000	14,556	15,006
BIND Therapeutics, Inc.(3)	Drug Delivery	Senior Secured	September 2016	Interest rate Prime + 7.00% or Floor rate of 10.25%	$ 4,500	4,407	4,458
Celsion Corporation(3)	Drug Delivery	Senior Secured	June 2017	Interest rate Prime + 8.00% or Floor rate of 11.25%	$ 5,000	4,897	4,897
Dance Biopharm, Inc.	Drug Delivery	Senior Secured	August 2017	Interest rate PRIME + 7.4% or Floor rate of 10.65%	$ 1,000	974	974
Intelliject, Inc.(11)	Drug Delivery	Senior Secured	June 2016	Interest rate PRIME + 5.75% or Floor rate of 11.00%	$ 15,000	15,150	15,450
NuPathe, Inc.(3)	Drug Delivery	Senior Secured	May 2016	Interest rate Prime - 3.25% or Floor rate of 9.85%	$ 5,749	5,629	5,744
Revance Therapeutics, Inc.	Drug Delivery	Senior Secured	March 2015	Interest rate PRIME + 6.60% or Floor rate of 9.85%	$ 9,798	10,032	9,943
	Drug Delivery	Senior Secured	March 2015	Interest rate PRIME + 6.60% or Floor rate of 9.85%	$ 980	1,011	994
Total Revance Therapeutics, Inc.						11,043	10,937
Subtotal: 1-5 Years Maturity						56,655	57,466
Subtotal: Drug Delivery (8.84%)*						56,655	57,466
Drug Discovery & Development							
1-5 Years Maturity							

ADMA Biologics, Inc.(3)	Drug Discovery & Development	Senior Secured	April 2016	Interest rate Prime + 2.75% or Floor rate of 8.50%	$ 5,000	4,956	4,892
Anacor Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Secured	July 2017	Interst rate PRIME + 6.40% or Floor rate of 11.65%	$ 30,000	29,083	29,810
Aveo Pharmaceuticals, Inc.(3)(10)(11)	Drug Discovery & Development	Senior Secured	September 2015	Interest rate PRIME + 7.15% or Floor rate of 11.90%	$ 19,396	19,396	19,590
Cell Therapeutics, Inc.(3)(11)	Drug Discovery & Development	Senior Secured	October 2016	Interest rate Prime + 9.00% or Floor rate of 12.25%	$ 15,000	14,750	15,200
Cempra, Inc.(3)(11)	Drug Discovery & Development	Senior Secured	June 2017	Interest rate PRIME + 6.30% or Floor rate of 9.55%	$ 15,000	14,795	14,550
Cleveland BioLabs, Inc.(3)	Drug Discovery & Development	Senior Secured	January 2017	Interest rate PRIME + 6.20% or Floor rate of 10.45%	$ 6,000	5,909	5,909
Concert Pharmaceuticals, Inc.(4)	Drug Discovery & Development	Senior Secured	October 2015	Interest rate PRIME + 3.25% or Floor rate of 8.50%	$ 15,091	14,933	14,649
Coronado Biosciences, Inc.(3)(11)	Drug Discovery & Development	Senior Secured	March 2016	Interest rate PRIME + 6.00% or Floor rate of 9.25%	$ 13,654	13,720	13,449
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Secured	January 2015	Interest rate PRIME + 4.40% or Floor rate of 10.15%	$ 5,026	4,991	4,981
Insmed, Incorporated(11)	Drug Discovery & Development	Senior Secured	January 2016	Interest rate PRIME + 4.75% or Floor rate of 9.25%	$ 20,000	19,708	19,535
Merrimack Pharmaceuticals, Inc.(3)	Drug Discovery & Development	Senior Secured	November 2016	Interest rate PRIME + 5.30% or Floor rate of 10.55%	$ 40,000	40,314	39,455
Neuralstem, Inc.(3)	Drug Discovery & Development	Senior Secured	June 2016	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 8,000	7,874	8,035

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Maturity Date	Interest Rate and Floor	Principal Amount	Cost[2]	Value[3]
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Secured	N/A	Interest rate Fixed 10.00%	$ 36	$ 36	$
	Drug Discovery & Development	Senior Secured	N/A	Interest rate Fixed 10.00%	$ 45	45	
	Drug Discovery & Development	Senior Secured	N/A	N/A	$ 28	28	
Total Paratek Pharmaceuticals, Inc.					$ 109	109	
uniQure B.V.[5][10][11]	Drug Discovery & Development	Senior Secured	October 2016	Interest rate PRIME + 8.60% or Floor rate of 11.85%	$ 10,000	9,695	9,818
Subtotal: 1-5 Years Maturity						200,232	199,872
Subtotal: Drug Discovery & Development (30.75%)*						200,232	199,872
Electronics & Computer Hardware							
1-5 Years Maturity							
Clustrix, Inc.	Electronics & Computer Hardware	Senior Secured	December 2015	Interest rate PRIME + 6.50% or Floor rate of 9.75%	$ 524	526	526
Identive Group, Inc.[3][11]	Electronics & Computer Hardware	Senior Secured	November 2015	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 5,938	5,696	5,755
OCZ Technology Group, Inc.	Electronics & Computer Hardware	Senior Secured	April 2016	Interest rate Prime + 8.75% or Floor rate of 12.50%, PIK Interest 3.00%	$ 1,221	1,221	1,221
Plures Technologies, Inc.[3]	Electronics & Computer Hardware	Senior Secured	October 2016	Interest rate Prime + 12.75% or Floor rate of 16.00%, PIK Interest 4.00%	$ 2,046	1,958	1,458
Subtotal: 1-5 Years Maturity						9,400	8,959
Subtotal: Electronics & Computer Hardware (1.38%)*						9,400	8,959
Healthcare Services, Other							
1-5 Years Maturity							
InstaMed Communications, LLC	Healthcare Services, Other	Senior Secured	December 2016	Interest rate PRIME + 7.25% or Floor rate of 10.50%	$ 3,000	2,979	2,979
MDEverywhere, Inc.	Healthcare Services, Other	Senior Secured	June 2016	Interest rate LIBOR + 9.50% or Floor rate of 10.75%	$ 2,000	1,875	1,907

Orion Healthcorp, Inc.	Healthcare Services, Other	Senior Secured	June 2017	Interest rate LIBOR + 10.50% or Floor rate of 12.00%, PIK Interest 3.00%	$ 6,591	6,467	6,413
	Healthcare Services, Other	Senior Secured	June 2017	Interest rate LIBOR + 9.50% or Floor rate of 11.00%	$ 9,000	8,838	8,445
	Healthcare Services, Other	Senior Secured	June 2016	Interest rate LIBOR + 8.25% or Floor rate of 9.50%	$ 500	465	461
Total Orion Healthcorp, Inc.					$ 16,091	15,769	15,318
Pacific Child & Family Associates, LLC	Healthcare Services, Other	Senior Secured	January 2015	Interest rate LIBOR + 9.00% or Floor rate of 11.50%	$ 1,946	2,017	1,988
	Healthcare Services, Other	Senior Secured	January 2015	Interest rate LIBOR + 11.00% or Floor rate of 14.00%, PIK interest 3.75%	$ 6,836	6,867	6,833
Total Pacific Child & Family Associates, LLC					$ 8,782	8,884	8,822
Subtotal: 1-5 Years Maturity						29,508	29,025
Subtotal: Healthcare Services, Other (4.47%)*						29,508	29,025

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Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Information Services							
1-5 Years Maturity							
Eccentex Corporation(11)	Information Services	Senior Secured	May 2015	Interest rate PRIME + 7.00% or Floor rate of 10.25%	$ 657	$ 658	$ 185
InXpo, Inc.	Information Services	Senior Secured	April 2016	Interest rate PRIME + 7.50% or Floor rate of 10.75%	$ 2,550	2,489	2,384
Jab Wireless, Inc.	Information Services	Senior Secured	November 2017	Interest rate Libor + 6.75% or Floor rate of 8.00%	$ 30,000	29,822	29,822
	Information Services	Senior Secured	November 2017	Interest rate Prime + 6.75% or Floor rate of 8.00%	$ 2,000	1,996	1,996
Total Jab Wireless, Inc.					$ 32,000	31,818	31,818
Womensforum.com(11)	Information Services	Senior Secured	October 2016	Interest rate LIBOR + 7.50% or Floor rate of 10.25%, PIK Interest 2.00%	$ 4,607	4,536	4,127
	Information Services	Senior Secured	October 2016	Interest rate LIBOR + 6.50% or Floor rate of 9.25%	$ 6,900	6,793	6,470
	Information Services	Senior Secured	April 2015	Interest rate LIBOR + 6.50% or Floor rate of 9.00%	$ 1,250	1,227	1,156
Total Womensforum.com					$ 12,757	12,556	11,754
Subtotal: 1-5 Years Maturity						47,521	46,140
Subtotal: Information Services (7.10%)*						47,521	46,140
Internet Consumer & Business Services							
Under 1 Year Maturity							
Gazelle, Inc.	Internet Consumer & Business Services	Senior Secured	October 2014	Interest rate PRIME + 6.50% or Floor rate of 9.75%	$ 2,137	2,115	2,115
Tectura Corporation(8)	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 10.00% or Floor rate of 13.00%	$ 6,468	6,467	3,566
	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 8.00% or Floor rate of 11.00%, PIK Interest 1.00%	$ 10,777	10,777	5,943
	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 10.00% or Floor rate of 13.00%	$ 563	563	310
	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 10.00% or Floor rate of 13.00%	$ 5,000	5,000	2,757
Total Tectura Corporation					$ 22,807	22,806	12,576
Subtotal: Under 1 Year Maturity						24,921	14,691

1-5 Years Maturity							
Blurb, Inc.	Internet Consumer & Business Services	Senior Secured	December 2015	Interest rate PRIME + 5.25% or Floor rate of 8.50%	$ 6,351	6,216	6,054
CashStar, Inc.	Internet Consumer & Business Services	Senior Secured	June 2016	Interest rate Prime + 6.25% or Floor rate 10.50%, PIK Interest 1.00%	$ 4,018	3,944	3,916
Education Dynamics, LLC	Internet Consumer & Business Services	Senior Secured	March 2016	Interest rate Libor + 12.5% or Floor rate 12.50%, PIK Interest 1.5%	$ 24,685	24,284	23,582
Gazelle, Inc.	Internet Consumer & Business Services	Senior Secured	April 2016	Interest rate Prime + 7.00% or Floor rate of 10.25%, PIK Interest 2.50%	$ 12,365	12,283	12,128
Just Fabulous, Inc.	Internet Consumer & Business Services	Senior Secured	February 2017	Interest rate PRIME + 8.25% or Floor rate of 11.50%	$ 5,000	4,842	4,842

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Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
NetPlenish(8)	Internet Consumer & Business Services	Senior Secured	September 2015	Interest rate FIXED 10.00%	$ 383	$ 375	$
	Internet Consumer & Business Services	Senior Secured	April 2015	Interest rate FIXED 10.00%	$ 97	97	
Total NetPlenish					$ 480	472	
Reply! Inc.(11)	Internet Consumer & Business Services	Senior Secured	February 2016	Interest rate PRIME + 7.25% or Floor rate of 10.50%, PIK Interest 2.00%	$ 3,031	3,051	3,034
	Internet Consumer & Business Services	Senior Secured	September 2015	Interest rate Prime + 6.88% or Floor rate of 10.13%, PIK Interest 2.00%	$ 9,169	9,086	9,169
	Internet Consumer & Business Services	Senior Secured	September 2015	Interest rate Prime + 7.25% or Floor rate of 11.00%, PIK Interest 2.00%	$ 2,020	2,044	2,070
Total Reply! Inc.					$ 14,220	14,181	14,273
ShareThis, Inc.	Internet Consumer & Business Services	Senior Secured	June 2016	Interest rate PRIME + 7.50% or Floor rate of 10.75%	$ 14,578	14,160	14,160
VaultLogix, LLC	Internet Consumer & Business Services	Senior Secured	September 2015	Interest rate LIBOR + 7.00% or Floor rate of 8.50%	$ 7,897	7,927	7,525
	Internet Consumer & Business Services	Senior Secured	September 2016	Interest rate LIBOR + 8.50% or Floor rate of 10.00%, PIK interest 2.50%	$ 7,949	7,898	7,397
Total VaultLogix, LLC					$ 15,847	15,826	14,923
WaveMarket, Inc.(11)	Internet Consumer & Business Services	Senior Secured	September 2015	Interest rate Prime + 5.75% or Floor rate of 9.50%	$ 10,000	9,940	9,665
Subtotal: 1-5 Years Maturity						106,148	103,545
Subtotal: Internet Consumer & Business Services (18.19%)*						131,069	118,236
Media/Content/Info							
Under 1 Year Maturity							
Zoom Media Group, Inc.	Media/Content/Info	Senior Secured	December 2014	Interest rate PRIME + 5.25% or Floor rate of 8.50%	$ 4,000	3,858	3,858

Subtotal: Under 1 Year Maturity						3,858	3,858
1-5 Years Maturity							
Zoom Media Group, Inc.	Media/Content/Info	Senior Secured	December 2015	Interest rate PRIME + 7.25% and PIK + 3.75% or Floor rate of 10.50%	$ 4,288	4,122	4,071
Subtotal: 1-5 Years Maturity						4,122	4,071
Subtotal: Media/Content/Info (1.22%)*						7,981	7,929
Medical Devices & Equipment							
Under 1 Year Maturity							
Oraya Therapeutics, Inc.[(9)(11)]	Medical Devices & Equipment	Senior Secured	December 2014	Interest rate Fixed 7.00%	$ 500	500	500
Subtotal: Under 1 Year Maturity						500	500
1-5 Years Maturity							
Baxano Surgical, Inc.[(3)]	Medical Devices & Equipment	Senior Secured	March 2017	Interest rate PRIME + 7.75% or Floor rate of 12.5%	$ 7,500	7,222	7,222
Home Dialysis Plus, Inc.	Medical Devices & Equipment	Senior Secured	April 2017	Interest rate PRIME + 6.35% or Floor rate of 9.60%	$ 10,000	9,732	9,732
InspireMD, Inc.[(3)(5)(10)]	Medical Devices & Equipment	Senior Secured	February 2017	Interest rate PRIME + 5.00% or Floor rate of 10.50%	$ 10,000	9,696	9,696
Medrobotics Corporation	Medical Devices & Equipment	Senior Secured	March 2016	Interest rate PRIME + 7.85% or Floor rate of 11.10%	$ 4,561	4,489	4,454

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Portfolio Company	Sub-Industry	Type of Investment[1]	Maturity Date	Interest Rate and Floor	Principal Amount	Cost[2]	Value[3]
NetBio, Inc.	Medical Devices & Equipment	Senior Secured	August 2017	Interest rate PRIME + 5.00% or Floor rate of 11.00%	$ 5,000	$ 4,788	$ 4,788
NinePoint Medical, Inc.	Medical Devices & Equipment	Senior Secured	January 2016	Interest rate PRIME + 5.85% or Floor rate of 9.10%	$ 5,946	5,911	5,794
Oraya Therapeutics, Inc.[9][11]	Medical Devices & Equipment	Senior Secured	September 2015	Interest rate PRIME + 5.50% or Floor rate of 10.25%	$ 7,064	6,980	7,162
SonaCare Medical, LLC (pka US HIFU, LLC)[11]	Medical Devices & Equipment	Senior Secured	April 2016	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 5,667	5,754	5,818
United Orthopedic Group, Inc.	Medical Devices & Equipment	Senior Secured	July 2016	Interest rate PRIME + 8.60% or Floor rate of 11.85%	$ 25,000	24,647	25,166
ViewRay, Inc.	Medical Devices & Equipment	Senior Secured	June 2017	Interest rate PRIME + 7.00% or Floor rate of 10.25%, PIK Interest 1.50%	$ 15,000	14,489	14,489
Subtotal: 1-5 Years Maturity						93,707	94,320
Subtotal: Medical Devices & Equipment (14.59%)*						94,206	94,819
Semiconductors							
1-5 Years Maturity							
Achronix Semiconductor Corporation	Semiconductors	Senior Secured	January 2015	Interest rate PRIME + 10.60% or Floor rate of 13.85%	$ 1,032	1,023	1,006
SiTime Corporation	Semiconductors	Senior Secured	September 2016	Interest rate PRIME + 6.50% or Floor rate of 9.75%	$ 3,500	3,473	3,473
Subtotal: 1-5 Years Maturity						4,495	4,479
Subtotal: Semiconductors (0.69%)*						4,495	4,479
Software							
Under 1 Year Maturity							
Clickfox, Inc.	Software	Senior Secured	September 2014	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 2,000	1,979	1,979
StartApp, Inc.	Software	Senior Secured	December 2014	Interest rate PRIME + 2.75% or Floor rate of 6.00%	$ 200	191	191
Touchcommerce, Inc.	Software	Senior Secured	December 2014	Interest rate Prime + 2.25% or Floor rate of 6.50%	$ 3,111	3,071	2,970

Subtotal: Under 1 Year Maturity						5,241	5,140
1-5 Years Maturity							
Clickfox, Inc.	Software	Senior Secured	November 2015	Interest rate PRIME + 8.25% or Floor rate of 11.50%	$ 5,842	5,530	5,530
Hillcrest Laboratories, Inc.	Software	Senior Secured	July 2015	Interest rate PRIME + 7.50% or Floor rate of 10.75%	$ 2,660	2,630	2,604
Mobile Posse, Inc.	Software	Senior Secured	December 2016	Interest rate PRIME + 7.50% or Floor rate of 10.75%	$ 4,000	3,876	3,879
Neos Geosolutions, Inc.	Software	Senior Secured	May 2016	Interest rate Prime + 5.75% or Floor rate of 10.50%	$ 3,771	3,808	3,705
Sonian, Inc.	Software	Senior Secured	July 2017	Interest rate PRIME + 7.00% or Floor rate of 10.25%	$ 5,500	5,332	5,332
StartApp, Inc.	Software	Senior Secured	March 2017	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 2,500	2,507	2,498
Touchcommerce, Inc.	Software	Senior Secured	June 2017	Interest rate Prime + 6.00% or Floor rate of 10.25%	$ 5,000	4,688	4,767
Subtotal: 1-5 Years Maturity						28,372	28,315
Subtotal: Software (5.15%)*						33,613	33,455

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Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Specialty Pharmaceuticals							
1-5 Years Maturity							
Rockwell Medical, Inc.	Specialty Pharmaceuticals	Senior Secured	March 2017	Interest rate PRIME + 9.25% or Floor rate of 12.50%	$ 20,000	$ 20,055	$ 20,055
Subtotal: 1-5 Years Maturity						20,055	20,055
Subtotal: Specialty Pharmaceuticals (3.09%)*						20,055	20,055
Surgical Devices							
1-5 Years Maturity							
Transmedics, Inc.(11)	Surgical Devices	Senior Secured	November 2015	Interest rate FIXED 12.95%	$ 7,250	7,207	7,207
Subtotal: 1-5 Years Maturity						7,207	7,207
Subtotal: Surgical Devices (1.11%)*						7,207	7,207
Total Debt (126.46%)*						835,882	821,988

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Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Equity						
Biotechnology Tools						
NuGEN Technologies, Inc.	Biotechnology Tools	Equity	Preferred Series C	189,394	$ 500	$ 687
Subtotal: Biotechnology Tools (0.11%)*					500	687
Communications & Networking						
GlowPoint, Inc.[3]	Communications & Networking	Equity	Common Stock	114,192	102	157
Peerless Network, Inc.	Communications & Networking	Equity	Preferred Series A	1,000,000	1,000	3,621
Stoke, Inc.	Communications & Networking	Equity	Preferred Series E	152,905	500	224
Subtotal: Communications & Networking (0.62%)*					1,602	4,002
Consumer & Business Products						
Caivis Acquisition Corporation	Consumer & Business Products	Equity	Common Stock	295,861	819	598
IPA Holdings, LLC	Consumer & Business Products	Equity	LLC Interest	500,000	500	676
Market Force Information, Inc.	Consumer & Business Products	Equity	Preferred Series B	187,970	500	285
Subtotal: Consumer & Business Products (0.24%)*					1,819	1,559
Diagnostic						
Singulex, Inc.	Diagnostic	Equity	Common Stock	937,998	750	750
Subtotal: Diagnostic (0.12%)*					750	750
Drug Delivery						
AcelRx Pharmaceuticals, Inc.[3][10]	Drug Delivery	Equity	Common Stock	89,243	178	1,009
Merrion Pharmaceuticals, Plc[3][5][10]	Drug Delivery	Equity	Common Stock	20,000	9	
NuPathe, Inc.[3]	Drug Delivery	Equity	Common Stock	50,000	146	164
Transcept Pharmaceuticals, Inc.[3]	Drug Delivery	Equity	Common Stock	41,570	500	140
Subtotal: Drug Delivery (0.20%)*					833	1,313
Drug Discovery & Development						
Acceleron Pharma, Inc.[3]		Equity	Common Stock	256,410	1,505	9,286

	Drug Discovery & Development					
Aveo Pharmaceuticals, Inc.[3][10]	Drug Discovery & Development	Equity	Common Stock	167,864	842	307
Dicerna Pharmaceuticals, Inc.[12]	Drug Discovery & Development	Equity	Preferred Series B	20,107	503	228
	Drug Discovery & Development	Equity	Preferred Series C	142,858	1,000	1,055
Total Dicerna Pharmaceuticals, Inc.				162,965	1,503	1,283
Inotek Pharmaceuticals Corporation	Drug Discovery & Development	Equity	Common Stock	15,334	1,500	
Merrimack Pharmaceuticals, Inc.[3]	Drug Discovery & Development	Equity	Common Stock	546,448	2,000	2,912
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Equity	Common Stock	85,450	5	
	Drug Discovery & Development	Equity	Preferred Series H	244,158	1,000	
Total Paratek Pharmaceuticals, Inc.				329,608	1,005	
Subtotal: Drug Discovery & Development (2.12%)*					8,355	13,788

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Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Information Services						
Buzznet, Inc.	Information Services	Equity	Preferred Series C	263,158	$ 250	$
Good Technologies, Inc. (pka Visto Corporation)	Information Services	Equity	Common Stock	500,000	603	
Subtotal: Information Services (0.00%)*					853	
Internet Consumer & Business Services						
Blurb, Inc.	Internet Consumer & Business Services	Equity	Preferred Series B	220,653	175	444
Philotic, Inc.	Internet Consumer & Business Services	Equity	Common Stock	8,121	92	
Progress Financial	Internet Consumer & Business Services	Equity	Preferred Series G	218,351	250	280
Trulia, Inc.[3]	Internet Consumer & Business Services	Equity	Common Stock	29,340	141	1,035
Subtotal: Internet Consumer & Business Services (0.27%)*					658	1,759
Media/Content/Info						
Everyday Health, Inc. (pka Waterfront Media, Inc.)	Media/Content/Info	Equity	Preferred Series D	145,590	1,000	425
Subtotal: Media/Content/Info (0.07%)*					1,000	425
Medical Devices & Equipment						
Gelesis, Inc.[6]	Medical Devices & Equipment	Equity	LLC Interest	2,024,092	925	466
Medrobotics Corporation	Medical Devices & Equipment	Equity	Preferred Series E	136,798	250	269
Novasys Medical, Inc.	Medical Devices & Equipment	Equity	Preferred Series D-1	4,118,444	1,000	
Optiscan Biomedical, Corp.[6]	Medical Devices & Equipment	Equity	Preferred Series B	6,185,567	3,000	411
	Medical Devices & Equipment	Equity	Preferred Series C	1,927,309	655	135
	Medical Devices & Equipment	Equity	Preferred Series D	41,352,489	3,945	4,006
Total Optiscan Biomedical, Corp.				49,465,365	7,600	4,552
Subtotal: Medical Devices & Equipment (0.81%)*					9,775	5,287
Software						
Atrenta, Inc.	Software	Equity	Preferred Series C	1,196,845	986	1,607

	Software	Equity	Preferred Series D	635,513	508	1,088
Total Atrenta, Inc.				1,832,358	1,494	2,695
Box, Inc.	Software	Equity	Preferred Series C	390,625	500	7,031
	Software	Equity	Preferred Series D	158,133	500	2,846
	Software	Equity	Preferred Series D-1	124,511	1,000	2,241
	Software	Equity	Preferred Series D-2	220,751	2,001	3,974
	Software	Equity	Preferred Series E	38,183	500	687
Total Box, Inc.				932,203	4,501	16,779
CapLinked, Inc.	Software	Equity	Preferred Series A-3	53,614	51	94
ForeScout Technologies, Inc.	Software	Equity	Preferred Series D	319,099	398	849
HighRoads, Inc.	Software	Equity	Preferred Series B	190,170	307	337
Subtotal: Software (3.19%)*					6,751	20,754

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Specialty Pharmaceuticals						
QuatRx Pharmaceuticals Company	Specialty Pharmaceuticals	Equity	Preferred Series E	241,829	$ 750	$
	Specialty Pharmaceuticals	Equity	Preferred Series E-1	26,955		
	Specialty Pharmaceuticals	Equity	Preferred Series G	4,667,636		
Total QuatRx Pharmaceuticals Company				4,936,420	750	
Subtotal: Specialty Pharmaceuticals (0.00%)*					750	
Surgical Devices						
Gynesonics, Inc.	Surgical Devices	Equity	Preferred Series B	219,298	250	73
	Surgical Devices	Equity	Preferred Series C	656,538	282	123
	Surgical Devices	Equity	Preferred Series D	1,621,553	580	749
Total Gynesonics, Inc.				2,497,389	1,112	945
Transmedics, Inc.	Surgical Devices	Equity	Preferred Series B	88,961	1,100	303
	Surgical Devices	Equity	Preferred Series C	119,999	300	212
	Surgical Devices	Equity	Preferred Series D	260,000	650	886
Total Transmedics, Inc.				468,960	2,050	1,401
Subtotal: Surgical Devices (0.36%)*					3,162	2,346
Total Equity (8.10%)*					36,808	52,670
Warrant						
Biotechnology Tools						
Labcyte, Inc.	Biotechnology Tools	Warrant	Preferred Series C	1,127,624	323	65
NuGEN Technologies, Inc.	Biotechnology Tools	Warrant	Preferred Series B	234,659	78	234
Subtotal: Biotechnology Tools (0.05%)*					401	299
Energy Technology						
Agrivida, Inc.	Energy Technology	Warrant	Preferred Series C	77,447	120	243
Alphabet Energy, Inc.	Energy Technology	Warrant	Preferred Series A	86,329	82	176
American Superconductor Corporation(3)	Energy Technology	Warrant	Common Stock	512,820	391	175
Brightsource Energy, Inc.	Energy Technology	Warrant	Preferred Series 1	175,000	780	214
Calera, Inc.	Energy Technology	Warrant	Preferred Series C	44,529	513	
EcoMotors, Inc.	Energy Technology	Warrant	Preferred Series B	437,500	308	475
Fluidic, Inc.	Energy Technology	Warrant	Preferred Series C	59,665	102	138
Fulcrum Bioenergy, Inc.	Energy Technology	Warrant		280,897	275	210

			Preferred Series C-1			
Glori Energy, Inc.	Energy Technology	Warrant	Preferred Series C	145,932	165	50
GreatPoint Energy, Inc.	Energy Technology	Warrant	Preferred Series D-1	393,212	548	
Polyera Corporation	Energy Technology	Warrant	Preferred Series C	161,575	69	44
Propel Fuels	Energy Technology	Warrant	Preferred Series C	3,200,000	211	233
SCIEnergy, Inc.	Energy Technology	Warrant	Preferred Series D	1,061,623	360	2
Scifiniti (pka Integrated Photovoltaics, Inc.)	Energy Technology	Warrant	Preferred Series B	390,000	82	68
Solexel, Inc.	Energy Technology	Warrant	Preferred Series C	1,171,625	1,162	278
Stion Corporation(6)	Energy Technology	Warrant	Preferred Series Seed	2,154	1,378	1,627
TAS Energy, Inc.	Energy Technology	Warrant	Preferred Series F	428,571	299	756
TPI Composites, Inc.	Energy Technology	Warrant	Preferred Series B	120	172	376
Trilliant, Inc.	Energy Technology	Warrant	Preferred Series A	320,000	162	34
Subtotal: Energy Technology (0.78%)*(13)					7,179	5,099

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Communications & Networking						
Intelepeer, Inc.	Communications & Networking	Warrant	Preferred Series C	117,958	$ 102	$ 112
OpenPeak, Inc.	Communications & Networking	Warrant	Preferred Series 2	108,982	149	
PeerApp, Inc.	Communications & Networking	Warrant	Preferred Series B	298,779	61	41
Peerless Network, Inc.	Communications & Networking	Warrant	Preferred Series A	135,000	95	368
Ping Identity Corporation	Communications & Networking	Warrant	Preferred Series B	1,136,277	52	98
Spring Mobile Solutions, Inc.	Communications & Networking	Warrant	Preferred Series D	2,834,375	417	661
Stoke, Inc.	Communications & Networking	Warrant	Preferred Series C	158,536	53	5
	Communications & Networking	Warrant	Preferred Series D	72,727	65	2
Total Stoke, Inc.				231,263	118	7
Subtotal: Communications & Networking (0.20%)*					994	1,287
Consumer & Business Products						
Intelligent Beauty, Inc.	Consumer & Business Products	Warrant	Preferred Series B	190,234	230	1,027
IPA Holdings, LLC	Consumer & Business Products	Warrant	Common Stock	650,000	275	408
Market Force Information, Inc.	Consumer & Business Products	Warrant	Preferred Series A	99,286	24	1
Subtotal: Consumer & Business Products (0.22%)*					529	1,436
Diagnostic						
Navidea Biopharmaceuticals, Inc. (pka Neoprode)[3]	Diagnostic	Warrant	Common Stock	333,333	244	152
Subtotal: Diagnostic (0.02%)*					244	152

Drug Delivery						
AcelRx Pharmaceuticals, Inc.(3)(10)	Drug Delivery	Warrant	Common Stock	176,730	786	961
Alexza Pharmaceuticals, Inc.(3)	Drug Delivery	Warrant	Common Stock	37,639	645	1
BIND Therapeutics, Inc.(3)	Drug Delivery	Warrant	Common Stock	71,359	367	294
Celsion Corporation(3)	Drug Delivery	Warrant	Common Stock	97,493	227	249
Dance Biopharm, Inc.	Drug Delivery	Warrant	Preferred Series A	97,701	74	154
Intelliject, Inc.	Drug Delivery	Warrant	Preferred Series B	82,500	594	1,115
NuPathe, Inc.(3)	Drug Delivery	Warrant	Common Stock	106,631	139	136
Revance Therapeutics, Inc.(12)	Drug Delivery	Warrant	Preferred Series E-5	802,675	557	330
Transcept Pharmaceuticals, Inc.(3)	Drug Delivery	Warrant	Common Stock	61,452	87	3
Subtotal: Drug Delivery (0.50%)*					3,476	3,243
Drug Discovery & Development						
Acceleron Pharma, Inc.(3)	Drug Discovery & Development	Warrant	Common Stock	11,611	39	294
ADMA Biologics, Inc.(3)	Drug Discovery & Development	Warrant	Common Stock	31,750	129	73
Anthera Pharmaceuticals, Inc.(3)	Drug Discovery & Development	Warrant	Common Stock	40,178	984	9
Cell Therapeutics, Inc.(3)	Drug Discovery & Development	Warrant	Common Stock	679,040	405	601
Cempra, Inc.(3)	Drug Discovery & Development	Warrant	Common Stock	138,797	458	728

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Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Chroma Therapeutics, Ltd.[5][10]	Drug Discovery & Development	Warrant	Preferred Series D	325,261	$ 490	$ 500
Cleveland BioLabs, Inc[3]	Drug Discovery & Development	Warrant	Common Stock	156,250	105	66
Concert Pharmaceuticals, Inc.[12]	Drug Discovery & Development	Warrant	Preferred Series C	400,000	367	577
Coronado Biosciences, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	73,009	142	41
Dicerna Pharmaceuticals, Inc.[12]	Drug Discovery & Development	Warrant	Common Stock	200	28	
	Drug Discovery & Development	Warrant	Preferred Series A	21,000	237	38
	Drug Discovery & Development	Warrant	Preferred Series B	26,400	310	48
Total Dicerna Pharmaceuticals, Inc.				47,600	575	86
Horizon Pharma, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	22,408	231	5
Merrimack Pharmaceuticals, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	302,143	155	488
Neuralstem, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	648,798	295	1,045
Portola Pharmaceuticals, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	68,702	153	683
uniQure B.V.[5][10][12]	Drug Discovery & Development	Warrant	Preferred Series A	185,873	218	313
Subtotal: Drug Discovery & Development (0.85%)*					4,746	5,509
Electronics & Computer Hardware						
Clustrix, Inc.	Electronics & Computer Hardware	Warrant	Common Stock	50,000	12	16
Identive Group, Inc.[3]	Electronics & Computer Hardware	Warrant	Common Stock	992,084	247	136
Plures Technologies, Inc.[3]	Electronics & Computer Hardware	Warrant	Preferred Series A	552,467	124	100
Subtotal: Electronics & Computer Hardware (0.04%)*					383	252
Healthcare Services, Other						
MDEverywhere, Inc.	Healthcare Services, Other	Warrant	Common Stock	129	94	55
Subtotal: Healthcare Services, Other (0.01%)*					94	55
Information Services						

Buzznet, Inc.	Information Services	Warrant	Preferred Series B	19,962	9	
Cha Cha Search, Inc.	Information Services	Warrant	Preferred Series G	48,232	57	10
InXpo, Inc.	Information Services	Warrant	Preferred Series C	648,400	98	45
	Information Services	Warrant	Preferred Series C-1	582,015	49	40
Total InXpo, Inc.				1,230,415	147	85
Jab Wireless, Inc.	Information Services	Warrant	Preferred Series A	266,567	265	330
RichRelevance, Inc.	Information Services	Warrant	Preferred Series E	112,612	98	
Subtotal: Information Services (0.07%)*					576	425
Internet Consumer & Business Services						
Blurb, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series B	218,684	299	169
	Internet Consumer & Business Services	Warrant	Preferred Series C	234,280	636	248
Total Blurb, Inc.				452,964	935	417

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
CashStar, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series C-2	454,545	$ 102	$ 47
Gazelle, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series D	151,827	165	62
Invoke Solutions, Inc.	Internet Consumer & Business Services	Warrant	Common Stock	53,084	39	
Just Fabulous, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series B	137,456	589	1,057
Prism Education Group, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series B	200,000	43	
Progress Financial	Internet Consumer & Business Services	Warrant	Preferred Series G	174,562	78	76
Reply! Inc.	Internet Consumer & Business Services	Warrant	Preferred Series B	137,225	320	93
ShareThis, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series C	493,502	546	241
Tectura Corporation	Internet Consumer & Business Services	Warrant	Preferred Series B-1	253,378	51	
WaveMarket, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series B-1	1,083,779	105	85
Subtotal: Internet Consumer & Business Services (0.32%)*					2,973	2,078
Media/Content/Info						
Everyday Health, Inc. (pka Waterfront Media, Inc.)	Media/Content/Info	Warrant	Preferred Series C	110,018	60	50
Glam Media, Inc.	Media/Content/Info	Warrant	Preferred Series D	407,457	482	
Zoom Media Group, Inc.	Media/Content/Info	Warrant	Preferred Series A	1,204	348	275
Subtotal: Media/Content/Info (0.05%)*					890	325
Medical Devices & Equipment						
Baxano Surgical, Inc.[3]	Medical Devices & Equipment	Warrant	Common Stock	882,353	439	344
Gelesis, Inc.[6]	Medical Devices	Warrant	LLC Interest	263,688	78	7

	& Equipment					
Home Dialysis Plus, Inc.	Medical Devices & Equipment	Warrant	Preferred Series A	300,000	245	297
InspireMD, Inc.(3)(5)(10)	Medical Devices & Equipment	Warrant	Common Stock	168,351	242	167
Medrobotics Corporation	Medical Devices & Equipment	Warrant	Preferred Series D	424,008	343	184
	Medical Devices & Equipment	Warrant	Preferred Series E	34,199	27	23
Total Medrobotics Corporation				458,207	370	207
MELA Sciences, Inc.(3)	Medical Devices & Equipment	Warrant	Common Stock	693,202	401	94
NetBio, Inc.	Medical Devices & Equipment	Warrant	Common Stock	2,568	408	398
NinePoint Medical, Inc.	Medical Devices & Equipment	Warrant	Preferred Series A-1	587,840	170	288
Novasys Medical, Inc.	Medical Devices & Equipment	Warrant	Common Stock	109,449	2	
	Medical Devices & Equipment	Warrant	Preferred Series D	526,840	125	
	Medical Devices & Equipment	Warrant	Preferred Series D-1	53,607	6	
Total Novasys Medical, Inc.				689,896	133	

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Optiscan Biomedical, Corp.[6]	Medical Devices & Equipment	Warrant	Preferred Series D	10,535,275	$ 1,252	$ 232
Oraya Therapeutics, Inc.	Medical Devices & Equipment	Warrant	Common Stock	95,498	66	23
	Medical Devices & Equipment	Warrant	Preferred Series C	716,948	677	134
Total Oraya Therapeutics, Inc.				812,446	743	157
SonaCare Medical, LLC (pka US HIFU, LLC)	Medical Devices & Equipment	Warrant	Preferred Series A	409,704	188	201
United Orthopedic Group, Inc.	Medical Devices & Equipment	Warrant	Preferred Series A	423,076	608	785
ViewRay, Inc.	Medical Devices & Equipment	Warrant	Preferred Series C	312,500	333	331
Subtotal: Medical Devices & Equipment (0.54%)*					5,610	3,508
Semiconductors						
Achronix Semiconductor Corporation	Semiconductors	Warrant	Preferred Series C	360,000	160	194
SiTime Corporation	Semiconductors	Warrant	Preferred Series G	195,683	24	12
Subtotal: Semiconductors (0.03%)*					184	206
Software						
Atrenta, Inc.	Software	Warrant	Preferred Series D	392,670	121	330
Box, Inc.	Software	Warrant	Preferred Series B	271,070	72	4,701
	Software	Warrant	Preferred Series C	199,219	117	3,331
	Software	Warrant	Preferred Series D-1	62,255	194	625
Total Box, Inc.				532,544	383	8,657
Braxton Technologies, LLC	Software	Warrant	Preferred Series A	168,750	187	
Central Desktop, Inc.	Software	Warrant	Preferred Series B	522,769	108	187
Clickfox, Inc.	Software	Warrant	Preferred Series B	1,038,563	330	495
	Software	Warrant	Preferred Series C	592,019	730	363
Total Clickfox, Inc.				1,630,582	1,060	858
Daegis Inc. (pka Unify Corporation)[3]	Software	Warrant	Common Stock	718,860	1,433	83
ForeScout Technologies, Inc.	Software	Warrant	Preferred Series E	80,587	41	82
Hillcrest Laboratories, Inc.	Software	Warrant	Preferred Series E	1,865,650	55	139
Mobile Posse, Inc.	Software	Warrant	Preferred Series C	396,430	130	129

Neos Geosolutions, Inc.	Software	Warrant	Preferred Series 3	221,150	22	
Sonian, Inc.	Software	Warrant	Preferred Series C	185,949	106	105
SugarSync, Inc.	Software	Warrant	Preferred Series CC	332,726	78	48
	Software	Warrant	Preferred Series DD	107,526	34	16
Total Sugarsync, Inc.				440,252	112	64
Touchcommerce, Inc.	Software	Warrant	Preferred Series E	992,595	251	248
White Sky, Inc.	Software	Warrant	Preferred Series B-2	124,295	54	4
WildTangent, Inc.	Software	Warrant	Preferred Series 3	100,000	238	123
Subtotal: Software (1.69%)*					4,301	11,009
Specialty Pharmaceuticals						
QuatRx Pharmaceuticals Company	Specialty Pharmaceuticals	Warrant	Preferred Series E	155,324	307	
Subtotal: Specialty Pharmaceuticals (0.00%)*					307	

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Surgical Devices						
Gynesonics, Inc.	Surgical Devices	Warrant	Preferred Series C	180,480	$ 74	$ 27
	Surgical Devices	Warrant	Preferred Series D	1,575,965	320	383
Total Gynesonics, Inc.				1,756,445	394	410
Transmedics, Inc.	Surgical Devices	Warrant	Preferred Series B	40,436	225	9
	Surgical Devices	Warrant	Preferred Series D	175,000	100	335
Total Transmedics, Inc.				215,436	325	344
Subtotal: Surgical Devices (0.12%)*					719	754
Total Warrants (5.48%)*					33,606	35,637
Total Investments (140.04%)*					$ 906,297	$ 910,295

* Value as a percent of net assets

(1) Preferred and common stock, warrants, and equity interests are generally non-income producing.

(2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled $48.8 million, $44.5 million and $4.3 million respectively. The tax cost of investments is $906.2 million

(3) Except for warrants in twenty-five publicly traded companies and common stock in nine publicly traded companies, all investments are restricted at December 31, 2013 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

(4) Debt investments of this portfolio company have been pledged as collateral under the Wells Facility.

(5) Non-U.S. company or the company s principal place of business is outside the United States.

(6) Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 5% but not more than 25% of the voting securities of the company.

(7) Control investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owners at least 25% but not more than 50% of the voting securities of the company

(8) Debt is on non-accrual status at December 31, 2013, and is therefore considered non-income producing.

(9) Convertible Senior Debt

(10) Indicates assets that the Company deems not qualifying assets under section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company s total assets at the time of acquisition of any additional non-qualifying assets.

(11) Denotes that all or a portion of the loan secures the notes offered in the Debt Securitization (as defined in Note 4).

(12) Subsequent to December 31, 2013, this company completed an initial public offering. Note that the December 31, 2013 fair value does not reflect any potential impact of the conversion of our preferred shares to common shares which may include reverse split associated with the offering.

(13) In our quarterly and annual reports filed with the commission prior to this Annual Report on Form 10-K, we referred to this industry sector as Clean Tech.

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Portfolio Company	Sub-Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Debt					
Anthera Pharmaceuticals Inc.[3]	Drug Discovery & Development	Senior Debt[11] Matures December 2014 Interest rate Prime + 7.30% or Floor rate of 10.55%	$ 20,532	$ 20,745	$ 21,007
Aveo Pharmaceuticals, Inc.[3]	Drug Discovery & Development	Senior Debt[11] Matures September 2015 Interest rate Prime + 7.15% or Floor rate of 11.90%	$ 26,500	26,500	27,030
Cempra, Inc.[3]	Drug Discovery & Development	Senior Debt[11] Matures December 2015 Interest rate Prime + 6.30% or Floor rate of 9.55%	$ 10,000	9,862	9,902
Chroma Therapeutics, Ltd.[5][10]	Drug Discovery & Development	Senior Debt Matures November 2013 Interest rate Prime + 7.75% or Floor rate of 12.00%	$ 4,111	4,718	4,759
Concert Pharmaceuticals, Inc.[4]	Drug Discovery & Development	Senior Debt Matures October 2015 Interest rate Prime + 3.25% or Floor rate of 8.50%	$ 20,000	19,633	18,983
Coronado BioSciences, Inc.[3]	Drug Discovery & Development	Senior Debt[11] Matures March 2016 Interest rate Prime + 6.00% or Floor rate of 9.25%	$ 15,000	14,761	14,761
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt Matures January 2015 Interest rate Prime + 4.40% or Floor rate of 10.15%	$ 9,166	8,996	8,929
Insmed, Inc.	Drug Discovery & Development	Senior Debt[11] Matures January 2016 Interest rate Prime + 4.75% or Floor rate of 9.25%	$ 20,000	19,305	19,674
Merrimack Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt Matures May 2016 Interest rate Prime + 5.30% or Floor rate of 10.55%	$ 40,000	39,670	39,670
NeurogesX, Inc.[3]	Drug Discovery & Development	Senior Debt Matures February 2015 Interest rate Prime + 7.50% or Floor rate of 10.75%	$ 13,662	13,645	13,884
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Debt[9] Matures upon liquidation Interest rate Fixed 10.00%	$ 45	45	45
		Senior Debt[9] Matures upon liquidation Interest rate Fixed 10.00%	$ 36	31	31

Total Paratek Pharmaceuticals, Inc.	76	76
Total Debt Drug Discovery & Development (34.63%)*	177,911	178,675

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Portfolio Company	Sub-Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Bridgewave Communications	Communications & Networking	Senior Debt Matures March 2016 Interest rate Prime + 8.75% or Floor rate of 12.00%	$ 7,500	$ 7,003	$ 4,896
OpenPeak, Inc.	Communications & Networking	Senior Debt [11] Matures July 2015 Interest rate Prime + 8.75% or Floor rate of 12.00%	$ 15,000	15,008	15,158
PeerApp, Inc.[4]	Communications & Networking	Senior Debt Matures April 2013 Interest rate Prime + 7.50% or Floor rate of 11.50%	$ 501	588	588
PointOne, Inc.	Communications & Networking	Senior Debt Matures April 2015 Interest rate Libor + 11.00% or Floor rate of 13.50%	$ 7,000	6,880	6,772
		Senior Debt Matures September 2015 Interest rate Libor + 11.00% or Floor rate of 13.50%	$ 347	343	333
		Senior Debt Matures December 2016 Interest rate Libor + 11.00% or Floor rate of 13.50%	$ 3,594	3,594	3,400
Total PointOne, Inc.				10,817	10,505
Total Debt Communications & Networking (6.04%)*				33,416	31,147
Clustrix, Inc.	Electronics & Computer Hardware	Senior Debt Matures December 2015 Interest rate Prime + 6.50% or Floor rate of 9.75%	$ 235	227	227
Identive Group, Inc.	Electronics & Computer Hardware	Senior Debt Matures November 2015 Interest rate Prime + 7.75% or Floor rate 11.00%	$ 7,500	7,447	7,447
Total Debt Electronics & Computer Hardware (1.49%)				7,674	7,674
Box, Inc.[4]	Software	Senior Debt Matures March 2016 Interest rate Prime + 3.75% or Floor rate of 7.50%	$ 10,000	9,910	9,353
		Senior Debt Matures July 2014 Interest rate Prime + 5.25% or	$ 1,018	1,075	1,060

	Floor rate of 8.50%			
	Senior Debt[11] Matures July 2016 Interest rate Prime + 5.13% or Floor rate of 8.88%	$ 20,000	20,138	19,274
Total Box, Inc.			31,123	29,687

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Portfolio Company	Sub-Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Clickfox, Inc.	Software	Senior Debt Matures November 2015 Interest rate Prime + 8.25% or Floor rate of 11.50%	$ 8,000	$ 7,318	$ 7,558
EndPlay,Inc.	Software	Senior Debt Matures August 2015 Interest rate Prime + 7.35% or Floor rate 10.6%	$ 2,000	1,930	1,930
Hillcrest Laboratories, Inc	Software	Senior Debt Matures July 2015 Interest rate Prime + 7.50% or Floor rate of 10.75%	$ 4,000	3,923	3,860
JackBe Corporation	Software	Senior Debt Matures January 2016 Interest rate Prime + 7.25% or Floor rate of 10.50%	$ 3,000	2,900	2,900
Kxen, Inc.[4]	Software	Senior Debt Matures January 2015 Interest rate Prime + 5.08% or Floor rate of 8.33%	$ 2,337	2,371	2,192
Tada Innovations, Inc.	Software	Senior Debt[9] Matures November 2012 Interest rate Fixed 8.00%	$ 100	100	
Total Debt Software (9.33%)*				49,665	48,127
Althea Technologies, Inc.	Specialty Pharmaceuticals	Senior Debt Matures October 2013 Interest rate Prime + 7.70% or Floor rate of 10.95%	$ 7,659	7,927	7,927
Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Senior Debt[9] Matures March 2014 Interest rate Fixed 8.00%	$ 1,888	1,888	2,394
Total Debt Specialty Pharmaceuticals (2.00%)*				9,815	10,321
Achronix Semiconductor Corporation	Semiconductors	Senior Debt Matures January 2015 Interest rate Prime + 10.60% or Floor rate of 13.85%	$ 1,847	1,803	1,783
Total Debt Semiconductors (0.34%)*				1,803	1,783
AcelRX Pharmaceuticals, Inc.[3]	Drug Delivery	Senior Debt[11] Matures December 2014 Interest rate Prime + 3.25% or Floor rate of 8.50%	$ 16,345	16,222	15,983

ADMA Biologics, Inc.	Drug Delivery	Senior Debt Matures Febuary 2016 Interest rate Prime + 2.75% or Floor rate of 8.50%	$ 4,000	3,857	3,857
Alexza Pharmaceuticals, Inc.(3)	Drug Delivery	Senior Debt(11) Matures October 2013 Interest rate Prime + 6.50% or Floor rate of 10.75%	$ 5,052	5,410	5,410

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
BIND Biosciences, Inc.	Drug Delivery	Senior Debt Matures July 2014 Interest rate Prime + 7.45% or Floor rate of 10.70%	$ 3,326	$ 3,320	$ 3,387
Intelliject, Inc.	Drug Delivery	Senior Debt(11) Matures June 2016 Interest rate Prime + 5.75% or Floor rate of 11.00%	$ 15,000	14,615	15,065
Nupathe, Inc.(3)	Drug Delivery	Senior Debt Matures May 2016 Interest rate Prime - 3.25% or Floor rate of 9.85%	$ 8,500	8,166	8,166
Revance Therapeutics, Inc.	Drug Delivery	Senior Debt Matures March 2015 Interest rate Prime + 6.60% or Floor rate of 9.85%	$ 18,446	18,330	18,263
Total Debt Drug Delivery (13.59%)*				69,920	70,131
Ahhha, Inc.(8)	Internet Consumer & Business Services	Senior Debt Matures January 2015 Interest rate Fixed 12.00%	$ 350	347	
Blurb, Inc.	Internet Consumer & Business Services	Senior Debt Matures December 2015 Interest rate Prime + 5.25% or Floor rate 8.50%	$ 8,000	7,708	7,429
Education Dynamics, LLC	Internet Consumer & Business Services	Senior Debt Matures March 2016 Interest rate Fixed 12.50%, PIK Interest 1.50%	$ 27,500	26,976	26,976
Just.Me, Inc.	Internet Consumer & Business Services	Senior Debt Matures June 2015 Interest rate Prime + 2.50% or Floor rate 5.75%	$ 750	732	680
		Senior Debt Matures June 2015 Interest rate Prime + 5.00% or Floor rate 8.25%	$ 750	727	704
Total Just.Me, Inc.				1,459	1,384
Loku, Inc.	Internet Consumer & Business Services	Senior Debt(9) Matures June 2013 Interest rate Fixed 6.00%	$ 100	100	100
NetPlenish, Inc.	Internet Consumer & Business	Senior Debt Matures April 2015 Interest rate Fixed 10.00%	$ 500	490	452

	Services				
Reply! Inc.	Internet Consumer & Business Services	Senior Debt(11) Matures September 2015 Interest rate Prime + 6.875% or Floor rate of 10.125%	$ 11,749	11,624	11,337
		Senior Debt(11) Matures September 2015 Interest rate Prime + 7.25% or Floor rate of 11.00%	$ 2,000	1,946	1,971
Total Reply! Inc.				13,570	13,308

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Portfolio Company	Sub-Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Second Rotation, Inc.	Internet Consumer & Business Services	Senior Debt Matures August 2015 Interest rate Prime + 6.50% or Floor rate of 10.25%, PIK Interest 2.50%	$ 5,843	$ 5,860	$ 5,880
		Senior Debt Matures August 2015 Interest rate Prime + 6.50% or Floor rate of 10.25%, PIK Interest 1.50%	$ 1,947	1,888	1,909
		Revolving Line of Credit Matures January 2013 Interest rate Fixed 10.50%, PIK Interest 0.25%	$ 327	313	313
Total Second Rotation, Inc.				8,061	8,102
ShareThis, Inc.	Internet Consumer & Business Services	Senior Debt Matures June 2016 Interest rate Prime + 7.50% or Floor rate of 10.75%	$ 15,000	14,268	14,268
Tectura Corporation	Internet Consumer & Business Services	Revolving Line of Credit Matures July 2013 Interest rate Libor + 8.00% or Floor rate of 11.00%	$ 16,340	17,850	17,797
		Senior Debt Matures December 2014 Interest rate Libor + 10.00% or Floor rate of 13.00%	$ 6,978	6,908	6,827
		Senior Debt Matures April 2013 Interest rate Libor + 10.00% or Floor rate of 13.00%	$ 1,390	1,325	1,325
Total Tectura Corporation				26,083	25,949
Trulia, Inc.[3]	Internet Consumer & Business Services	Senior Debt[11] Matures September 2015 Interest rate Prime + 2.75% or Floor rate of 6.00%	$ 5,000	4,921	4,729
		Senior Debt[11] Matures September 2015 Interest rate Prime + 5.50% or Floor rate of 8.75%	$ 5,000	4,920	4,547
Total Trulia, Inc.				9,841	9,276
Vaultlogix, Inc.	Internet Consumer & Business Services	Senior Debt Matures September 2016 Interest rate LIBOR + 8.50% or Floor rate of 10.00%,	$ 7,500	7,681	7,721

	PIK interest 2.50% Senior Debt Matures September 2015 Interest rate LIBOR + 7.00% or Floor rate of 8.50%	$ 10,253	10,190	9,854
Total Vaultlogix, Inc.			17,871	17,575

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Votizen, Inc.	Internet Consumer & Business Services	Senior Debt(9) Matures February 2013 Interest rate Fixed 5.00%	$ 100	$ 100	$ 6
Wavemarket, Inc.	Internet Consumer & Business Services	Senior Debt(11) Matures September 2015 Interest rate Prime + 5.75% or Floor rate of 9.50%	$ 10,000	9,840	9,444
Total Debt Internet Consumer & Business Services (26.02%)*				136,714	134,269
Cha Cha Search, Inc.	Information Services	Senior Debt Matures February 2015 Interest rate Prime + 6.25% or Floor rate of 9.50%	$ 2,641	2,604	2,522
Eccentex Corporation	Information Services	Senior Debt(11) Matures May 2015 Interest rate Prime + 7.00% or Floor rate of 10.25%	$ 1,000	977	965
InXpo, Inc.	Information Services	Senior Debt Matures March 2014 Interest rate Prime + 7.50% or Floor rate of 10.75%	$ 2,550	2,466	2,434
Jab Wireless, Inc.	Information Services	Senior Debt Matures November 2017 Interest rate Prime + 6.75% or Floor rate of 8.00%	$ 30,000	29,852	29,850
RichRelevance, Inc.	Information Services	Senior Debt Matures January 2015 Interest rate Prime + 3.25% or Floor rate of 7.50%	$ 4,245	4,210	4,068
Womensforum.com, Inc.	Information Services	Senior Debt(11) Matures October 2016 Interest rate LIBOR + 6.50% or Floor rate of 9.25%	$ 8,000	7,838	7,838
		Senior Debt(11) Matures October 2016 Interest rate LIBOR + 7.50% or Floor rate of 10.25%	$ 4,500	4,422	4,422
Total Womensforum.com, Inc.				12,260	12,260
Total Debt Information Services (10.10%)*				52,369	52,099
Gynesonics, Inc.	Medical Device & Equipment	Senior Debt Matures October 2013 Interest rate Prime + 8.25% or	$ 3,912	3,975	4,014

	Floor rate of 11.50%				
	Senior Debt Matures February 2013 Interest rate Fixed 8.00%	$	253	247	247
	Senior Debt Matures September 2013 Interest rate Fixed 8.00%	$	36	30	30
Total Gynesonics, Inc.				4,252	4,291

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Portfolio Company	Sub-Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Lanx, Inc.	Medical Device & Equipment	Senior Debt Matures October 2016 Interest rate Prime + 6.50% or Floor rate of 10.25%	$ 15,000	$ 14,428	$ 14,428
		Revolving Line of Credit Matures October 2015 Interest rate Prime + 5.25% or Floor rate of 9.00%	$ 5,500	5,300	5,300
Total Lanx, Inc.				19,728	19,728
Novasys Medical, Inc.	Medical Device & Equipment	Senior Debt[9] Matures January 2013 Interest rate Fixed 8.00%	$ 65	65	65
		Senior Debt[9] Matures August 2013 Interest rate Fixed 8.00%	$ 22	20	20
Total Novasys Medical, Inc.				85	85
Optiscan Biomedical, Corp.[6]	Medical Device & Equipment	Senior Debt Matures December 2013 Interest rate Prime + 8.20% or Floor rate of 11.45%	$ 8,260	8,915	9,080
		Senior Debt[9] Matures April 2013 Interest rate Fixed 8.00%	$ 288	288	288
		Senior Debt[9] Matures September 2013 Interest rate Fixed 8.00%	$ 123	123	123
Total Optiscan Biomedical, Corp.				9,326	9,491
Oraya Therapeutics, Inc.	Medical Device & Equipment	Senior Debt[9] Matures December 2013 Interest rate Fixed 7.00%	$ 500	500	500
		Senior Debt[11] Matures September 2015 Interest rate Prime + 5.50% or Floor rate of 10.25%	$ 10,000	9,798	10,079
Total Oraya Therapeutics, Inc.				10,298	10,579
USHIFU, LLC	Medical Device & Equipment	Senior Debt[11] Matures April 2016 Interest rate Prime + 7.75% or Floor rate of 11.00%	$ 6,000	5,856	5,856
Total Debt Medical Device & Equipment (9.69%)*				49,545	50,030

Navidea Biopharmaceuticals, Inc. (pka Neoprobe)[3]	Diagnostic	Senior Debt Matures December 2014 Interest rate Prime + 6.75% or Floor rate of 10.00%	$ 5,741	5,691	5,752
Tethys Bioscience Inc.	Diagnostic	Senior Debt[11] Matures December 2015 Interest rate Prime + 8.40% or Floor rate of 11.65%	$ 10,000	9,940	10,026
Total Debt Diagnostic (3.06%)*				15,631	15,778

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Portfolio Company	Sub-Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
Labcyte, Inc.	Biotechnology Tools	Senior Debt Matures May 2013 Interest rate Prime + 8.60% or Floor rate of 11.85%	$ 761	$ 834	$ 834
		Senior Debt(11) Matures June 2016 Interest rate Prime + 6.70% or Floor rate of 9.95%	$ 5,000	4,890	4,995
Total Labcyte, Inc.				5,724	5,829
Total Debt Biotechnology Tools (1.13%)*				5,724	5,829
MedCall, LLC	Healthcare Services, Other	Senior Debt Matures January 2016 Interest rate 7.79% or Floor rate of 9.50%	$ 4,908	4,844	4,695
		Senior Debt Matures January 2016 Interest rate LIBOR +8.00% or Floor rate of 10.00%	$ 4,037	3,972	3,871
Total MedCall, LLC				8,816	8,566
Pacific Child & Family Associates, LLC	Healthcare Services, Other	Senior Debt Matures January 2015 Interest rate LIBOR + 9.00% or Floor rate of 11.50%	$ 3,661	3,713	3,713
		Revolving Line of Credit Matures January 2015 Interest rate LIBOR + 7.50% or Floor rate of 10.00%	$ 1,500	1,490	1,490
		Senior Debt Matures January 2015 Interest rate LIBOR + 11.50% or Floor rate of 14.00%, PIK interest 3.75%	$ 5,900	6,562	6,562
Total Pacific Child & Family Associates, LLC				11,765	11,765
ScriptSave (Medical Security Card Company, LLC)	Healthcare Services, Other	Senior Debt Matures Febuary 2016 Interest rate LIBOR + 8.75% or Floor rate of 11.25%	$ 16,375	16,168	16,150
Total Debt Health Services, Other (7.07%)*				36,749	36,481
Entrigue Surgical, Inc.			$ 2,463	2,431	2,427

	Surgical Devices	Senior Debt Matures December 2014 Interest rate Prime + 5.90% or Floor rate of 9.65%			
Transmedics, Inc.	Surgical Devices	Senior Debt[11] Matures November 2015 Interest rate Fixed 12.95%	$ 7,250	7,464	7,464
Total Debt Surgical Devices (1.92%)*				9,895	9,891

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Portfolio Company	Sub-Industry	Type of Investment[1]	Principal Amount	Cost[2]	Value[3]
Westwood One Communications	Media/ Content/ Info	Senior Debt Matures October 2016 Interest rate LIBOR + 6.50% or Floor rate of 8.00%	$ 20,475	$ 18,994	$ 17,575
Women s Marketing, Inc.	Media/Content/ Info	Senior Debt Matures May 2016 Interest rate Libor + 9.50% or Floor rate of 12.00%, PIK interest 3.00%	$ 9,681	10,002	10,002
		Senior Debt[11] Matures November 2015 Interest rate Libor + 7.50% or Floor rate of 10.00%	$ 16,362	16,105	15,787
Total Women s Marketing, Inc.				26,107	25,789
Zoom Media Corporation	Media/Content/ Info	Senior Debt Matures December 2015 Interest rate Prime + 7.25% or Floor rate of 10.50%, PIK 3.75%	$ 5,000	4,657	4,657
	Media/Content/ Info	Revolving Line of Credit Matures December 2014 Interest rate Prime + 5.25% or Floor rate of 8.50%	$ 3,000	2,700	2,700
Total Zoom Media Corporation				7,357	7,357
Total Debt Media/Content/Info (9.83%)*				52,458	50,721
Alphabet Energy, Inc.	Energy Technology	Senior Debt Matures February 2015 Interest rate Prime + 5.75% or Floor rate of 9.00%	$ 1,614	1,531	1,531
American Supercondutor Corporation[3]	Energy Technology	Senior Debt[11] Matures December 2014 Interest rate Prime + 7.25% or Floor rate of 11.00%	$ 9,231	9,161	9,438
BrightSource Energy, Inc.	Energy Technology	Revolving Line of Credit Matures January 2013 Interest rate Prime + 7.25% or Floor rate of 10.50%	$ 35,000	34,870	34,870
Comverge, Inc.	Energy Technology	Senior Debt Matures November 2017 Interest rate LIBOR + 8.00% or Floor rate of 9.50%	$ 20,000	19,577	19,577
	Energy Technology	Senior Debt Matures November 2017	$ 14,000	13,704	13,704

		Interest rate LIBOR + 9.50% or Floor rate of 11.00%			
Total Comverge, Inc.				33,281	33,281
Enphase Energy, Inc.[3]	Energy Technology	Senior Debt[11] Matures June 2014 Interest rate Prime + 5.75% or Floor rate of 9.00%	$ 3,758	3,739	3,716
	Energy Technology	Senior Debt Matures August 2016 Interest rate Prime + 8.25% or Floor rate of 11.50%	$ 7,400	7,321	7,321
Total Enphase Energy, Inc.				11,060	11,037

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Portfolio Company	Sub-Industry	Type of Investment(1)	Principal Amount	Cost(2)	Value(3)
Glori Energy, Inc.	Energy Technology	Senior Debt(11) Matures June 2015 Interest rate Prime + 6.75% or Floor rate of 10.00%	$ 8,000	$ 7,832	$ 7,988
Integrated Photovoltaics, Inc.	Energy Technology	Senior Debt Matures February 2015 Interest rate Prime + 7.38% or Floor rate of 10.63%	$ 2,572	2,494	2,508
Polyera Corporation	Energy Technology	Senior Debt Matures June 2016 Interest rate Prime + 6.75% or Floor rate of 10.00%	$ 3,000	2,952	2,952
Redwood Systems, Inc.	Energy Technology	Senior Debt Matures February 2016 Interest rate Prime + 6.50% or Floor rate of 9.75%	$ 5,000	4,965	4,965
SCIenergy, Inc.(4)	Energy Technology	Senior Debt Matures September 2015 Interest rate Prime + 8.75% or Floor rate 12.00%	$ 5,296	5,103	5,262
Solexel, Inc.	Energy Technology	Senior Debt Matures June 2013 Interest rate Prime + 8.25% or Floor rate of 11.50%	$ 2,884	2,877	2,877
		Senior Debt Matures June 2013 Interest rate Prime + 7.25% or Floor rate of 10.50%	$ 331	330	330
Total Solexel, Inc.				3,207	3,207
Stion Corporation(4)	Energy Technology	Senior Debt Matures February 2015 Interest rate Prime + 6.75% or Floor rate of 10.00%	$ 7,519	7,483	7,545
Total Debt Energy Technology (24.14%)*(12)				123,938	124,584
Total Debt (160.38%)				833,228	827,540

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Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Warrant						
Acceleron Pharmaceuticals, Inc.	Drug Discovery & Development	Common Stock Warrants		46,446	$ 39	$ 53
		Preferred Stock Warrants	Series A	426,000	69	345
		Preferred Stock Warrants	Series B	110,270	35	64
Total Warrants Acceleron Pharmaceuticals, Inc.				582,716	143	462
Anthera Pharmaceuticals Inc.[3]	Drug Discovery & Development	Common Stock Warrants		321,429	984	66
Cempra, Inc.[3]	Drug Discovery & Development	Common Stock Warrants		39,038	187	46
Chroma Therapeutics, Ltd.[5][10]	Drug Discovery & Development	Preferred Stock Warrants	Series D	325,261	490	500
Concert Pharmaceuticals, Inc.[4]	Drug Discovery & Development	Preferred Stock Warrants	Series C	400,000	367	126
Coronado Biosciences, Inc.[3]	Drug Discovery & Development	Common Stock Warrants		73,009	142	81
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Common Stock Warrants		50,000	28	16
		Preferred Stock Warrants	Series A	525,000	236	173
		Preferred Stock Warrants	Series B	660,000	311	217
Total Warrants Dicerna Pharmaceuticals, Inc.				1,235,000	575	406
EpiCept Corporation[3]	Drug Discovery & Development	Common Stock Warrants		325,204	4	
Horizon Pharma, Inc.[3]	Drug Discovery & Development	Common Stock Warrants		22,408	231	
Insmed, Incorporated[3]	Drug Discovery & Development	Common Stock Warrants		329,931	570	1,316
Merrimack Pharmaceuticals, Inc.[3]	Drug Discovery & Development	Common Stock Warrants		302,143	155	641
NeurogesX, Inc.[3]	Drug Discovery & Development	Common Stock Warrants		3,421,500	503	400
PolyMedix, Inc.[3]	Drug Discovery & Development	Common Stock Warrants		627,586	480	9
Portola Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock Warrants	Series B	687,023	152	298
Total Warrants Drug Discovery & Development (0.84%)*					4,983	4,351
Bridgewave Communications	Communications & Networking	Preferred Stock Warrants	Series 5	2,942,618	753	
Intelepeer, Inc.	Communications & Networking	Preferred Stock Warrants	Series C	117,958	101	190
Neonova Holding Company	Communications & Networking	Preferred Stock Warrants	Series A	450,000	94	23

OpenPeak, Inc.	Communications & Networking	Preferred Stock Warrants	Series E	25,646	149	9
PeerApp, Inc.(4)	Communications & Networking	Preferred Stock Warrants	Series B	298,779	61	47
Peerless Network, Inc.	Communications & Networking	Preferred Stock Warrants	Series A	135,000	95	352

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Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Ping Identity Corporation	Communications & Networking	Preferred Stock Warrants	Series B	1,136,277	$ 52	$ 112
UPH Holdings, Inc.	Communications & Networking	Common Stock Warrants		145,877	131	52
Purcell Systems, Inc.	Communications & Networking	Preferred Stock Warrants	Series B	110,000	123	62
Stoke, Inc.	Communications & Networking	Preferred Stock Warrants	Series C	158,536	53	135
		Preferred Stock Warrants	Series D	72,727	65	57
Total Stoke, Inc.				231,263	118	192
Total Warrants Communications & Networking (0.20%)*					1,677	1,039
Atrenta, Inc.	Software	Preferred Stock Warrants	Series D	392,670	121	322
Box, Inc.(4)	Software	Preferred Stock Warrants	Series C	271,070	117	2,235
		Preferred Stock Warrants	Series B	199,219	73	3,242
		Preferred Stock Warrants	Series D-1	62,255	194	566
Total Box, Inc.				532,544	384	6,043
Braxton Technologies, LLC.	Software	Preferred Stock Warrants	Series A	168,750	188	
Central Desktop, Inc.	Software	Preferred Stock Warrants	Series B	522,823	108	166
Clickfox, Inc.	Software	Preferred Stock Warrants	Series B	1,038,563	329	332
		Preferred Stock Warrants	Series C	592,019	730	213
Total Clickfox, Inc.				1,630,582	1,059	545
Daegis Inc. (pka Unify Corporation)(3)	Software	Common Stock Warrants		718,860	1,434	75
Endplay, Inc.	Software	Preferred Stock Warrants	Series B	180,000	67	39
Forescout Technologies, Inc.	Software	Preferred Stock Warrants	Series D	399,687	99	202
HighRoads, Inc.	Software	Preferred Stock Warrants	Series B	190,176	44	9
Hillcrest Laboratories, Inc.	Software	Preferred Stock Warrants	Series E	1,865,650	55	70
JackBe Corporation	Software	Preferred Stock Warrants	Series C	180,000	73	54
Kxen, Inc.(4)	Software	Preferred Stock Warrants	Series D	184,614	47	13
Rockyou, Inc.	Software	Preferred Stock Warrants	Series B	41,266	117	
SugarSync Inc.	Software	Preferred Stock Warrants	Series CC	332,726	78	123
		Preferred Stock Warrants	Series DD	107,526	34	30
Total SugarSync Inc.				440,252	112	153
Tada Innovations, Inc.	Software	Preferred Stock Warrants	Series A	20,833	25	
White Sky, Inc.	Software	Preferred Stock Warrants	Series B-2	124,295	54	3
WildTangent, Inc.	Software	Preferred Stock Warrants	Series 3A	100,000	238	82
Total Warrants Software (1.51%)*					4,225	7,776

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Clustrix, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants	Series B	49,732	$ 12	$ 13
Luminus Devices, Inc.	Electronics & Computer Hardware	Common Stock Warrants		26,386	600	
Shocking Technologies, Inc.	Electronics & Computer Hardware	Preferred Stock Warrants	Series A-1	181,818	63	106
Total Warrant Electronics & Computer Hardware (0.02%)*					675	119
Althea Technologies, Inc.	Specialty Pharmaceuticals	Preferred Stock Warrants	Series D	502,273	309	889
Pacira Pharmaceuticals, Inc.[3]	Specialty Pharmaceuticals	Common Stock Warrants		178,987	1,086	1,263
Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Preferred Stock Warrants	Series E	340,534	528	
Total Warrants Specialty Pharmaceuticals (0.42%)*					1,923	2,152
IPA Holdings, LLC	Consumer & Business Products	Common Stock Warrants		650,000	275	485
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock Warrants	Series A	99,286	24	84
Seven Networks, Inc.	Consumer & Business Products	Preferred Stock Warrants	Series C	1,821,429	174	130
ShareThis, Inc.	Consumer & Business Products	Preferred Stock Warrants	Series B	535,905	547	543
Wageworks, Inc.[3]	Consumer & Business Products	Common Stock Warrants		211,765	252	2,023
Wavemarket, Inc.	Consumer & Business Products	Preferred Stock Warrants	Series E	1,083,333	106	61
Total Warrant Consumer & Business Products (0.64%)*					1,378	3,326
Achronix Semiconductor Corporation	Semiconductors	Preferred Stock Warrants	Series D	360,000	160	84
Enpirion, Inc.	Semiconductors	Preferred Stock Warrants	Series D	239,872	157	
iWatt, Inc.	Semiconductors	Preferred Stock Warrants	Series C	558,748	45	14
		Preferred Stock Warrants	Series D	1,954,762	583	289
Total iWatt, Inc.				2,513,510	628	303
Kovio Inc.	Semiconductors	Preferred Stock Warrants	Series B	319,352	92	
Quartics, Inc.	Semiconductors	Preferred Stock Warrants	Series C	69,139	53	
Total Warrants Semiconductors (0.08%)*					1,090	387

AcelRX Pharmaceuticals, Inc.(3)	Drug Delivery	Common Stock Warrants		274,508	356	406
ADMA Biologics, Inc.	Drug Delivery	Common Stock Warrants		25,000	129	128
Alexza Pharmaceuticals, Inc.(3)	Drug Delivery	Common Stock Warrants		37,639	645	8
BIND Biosciences, Inc.	Drug Delivery	Preferred Stock Warrants	Series C-1	150,000	291	446
Intelliject, Inc.	Drug Delivery	Preferred Stock Warrants	Series B	82,500	594	574
NuPathe, Inc.(3)	Drug Delivery	Common Stock Warrants		106,631	139	165
Revance Therapeutics, Inc.	Drug Delivery	Preferred Stock Warrants	Series D	269,663	557	618
Transcept Pharmaceuticals, Inc.(3)	Drug Delivery	Common Stock Warrants		61,452	87	44
Total Warrant Drug Delivery (0.46%)*					2,798	2,389

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Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Blurb, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series B	439,336	$ 323	$ 347
		Preferred Stock Warrants	Series C	234,280	636	218
Total Blurb, Inc.				673,616	959	565
Invoke Solutions, Inc.	Internet Consumer & Business Services	Common Stock Warrants		53,084	38	
Just.Me	Internet Consumer & Business Services	Preferred Stock Warrants	Series A	102,299	20	20
Prism Education Group, Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series B	200,000	43	
Reply! Inc.	Internet Consumer & Business Services	Preferred Stock Warrants	Series B	137,225	320	802
Second Rotation	Internet Consumer & Business Services	Preferred Stock Warrants	Series D	105,819	105	113
Tectura Corporation	Internet Consumer & Business Services	Preferred Stock Warrants	Series B-1	253,378	51	12
Trulia, Inc.[3]	Internet Consumer & Business Services	Common Stock Warrants		56,053	188	368
Total Warrants Internet Consumer & Business Services (0.37%)*					1,724	1,880
Buzznet, Inc.	Information Services	Preferred Stock Warrants	Series B	19,962	9	
Cha Cha Search, Inc.	Information Services	Preferred Stock Warrants	Series F	48,232	58	5
Eccentex Corporation	Information Services	Preferred Stock Warrants	Series A	408,719	31	3
Intelligent Beauty, Inc.	Information Services	Preferred Stock Warrants	Series B	190,234	230	579
InXpo, Inc.	Information Services	Preferred Stock Warrants	Series C	648,400	98	43
	Information Services	Preferred Stock Warrants	Series C-1	267,049	25	24
Total InXpo, Inc.				915,449	123	67
Jab Wireless, Inc.	Information Services	Preferred Stock Warrants	Series A	266,567	265	420
RichRelevance, Inc.	Information Services	Preferred Stock Warrants	Series D	112,749	98	28
Solutionary, Inc.	Information Services	Preferred Stock Warrants	Series A-2	111,311	96	5
Total Warrants Information Services (0.22%)*					910	1,107
EKOS Corporation	Medical Device & Equipment	Preferred Stock Warrants	Series C	4,448,135	327	
Gelesis, Inc.[6]	Medical Device & Equipment		LLC Interest	263,688	78	95
Lanx, Inc.	Medical Device & Equipment	Preferred Stock Warrants	Series C	1,203,369	441	445
Novasys Medical, Inc.	Medical Device & Equipment	Preferred Stock Warrants	Series D	580,447	131	
		Common Stock Warrants		109,449	2	

Total Novasys Medial, Inc.				689,896	133	
Optiscan Biomedical, Corp.(6)	Medical Device & Equipment	Preferred Stock Warrants	Series D	6,206,187	1,069	151
Oraya Therapeutics, Inc.	Medical Device & Equipment	Preferred Stock Warrants	Series C	716,948	676	314
		Common Stock Warrants		95,498	66	62
Total Oraya Therapeutics, Inc.				812,446	742	376

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CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2012

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
USHIFU, LLC	Medical Device & Equipment	Preferred Stock Warrants	Series G	141,388	$ 188	$ 188
Total Warrants Medical Device & Equipment (0.24%)*					2,978	1,255
Navidea Biopharmaceuticals, Inc. (pka Neoprobe)[3]	Diagnostic	Common Stock Warrants		333,333	244	360
Tethys Bioscience, Inc.	Diagnostic	Preferred Stock Warrants	Series E	617,683	148	169
Total Warrants Diagnostic (0.10%)*					392	529
Labcyte, Inc.	Biotechnology Tools	Preferred Stock Warrants	Series C	1,127,624	323	247
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock Warrants	Series B	204,545	45	161
		Preferred Stock Warrants	Series C	30,114	33	8
Total NuGEN Technologies, Inc.				234,659	78	169
Total Warrants Biotechnology Tools (0.08%)*					401	416
Entrigue Surgical, Inc.	Surgical Devices	Preferred Stock Warrants	Series B	62,500	87	2
Transmedics, Inc.	Surgical Devices	Preferred Stock Warrants	Series B	40,436	225	
		Preferred Stock Warrants	Series D	175,000	100	100
Total Transmedics, Inc.					325	100
Gynesonics, Inc.	Surgical Devices	Preferred Stock Warrants	Series A	123,457	18	7
		Preferred Stock Warrants	Series C	1,474,261	387	298
Total Gynesonics, Inc.				1,597,718	405	305
Total Warrants Surgical Devices (0.08%)*					817	407
Everyday Health, Inc. (pka Waterfront Media, Inc.)	Media/Content/ Info	Preferred Stock Warrants	Series C	110,018	60	55
Glam Media, Inc.	Media/Content/ Info	Preferred Stock Warrants	Series D	407,457	482	
Zoom Media Group, Inc.	Media/Content/ Info	Preferred Stock Warrants	n/a	1,204	348	346
Total Warrants Media/Content/Info (0.08%)*					890	401
Alphabet Energy, Inc.	Energy Technology	Preferred Stock Warrants	Series A	79,083	68	148
American Supercondutor Corporation[3]	Energy Technology	Common Stock Warrants		139,275	244	122
BrightSource Energy, Inc.	Energy Technology	Preferred Stock Warrants	Series D	58,333	675	248
Calera, Inc.	Energy Technology	Preferred Stock Warrants	Series C	44,529	513	
EcoMotors, Inc.	Energy Technology	Preferred Stock Warrants	Series B	437,500	308	435
Enphase Energy, Inc.[3]	Energy Technology	Common Stock Warrants		37,500	102	17

Fulcrum Bioenergy, Inc.	Energy Technology	Preferred Stock Warrants	Series C-1	187,265	211	104
Glori Energy, Inc.	Energy Technology	Preferred Stock Warrants	Series C	145,932	165	62
GreatPoint Energy, Inc.	Energy Technology	Preferred Stock Warrants	Series D-1	393,212	548	1
Integrated Photovoltaics, Inc.	Energy Technology	Preferred Stock Warrants	Series A-1	390,000	82	119
Polyera Corporation	Energy Technology	Preferred Stock Warrants	Series C	161,575	69	68
Propel Biofuels, Inc.	Energy Technology	Preferred Stock Warrants	Series C	3,200,000	211	317
Redwood Systems, Inc.	Energy Technology	Preferred Stock Warrants	Series C	331,250	3	2
SCIenergy, Inc.(4)	Energy Technology	Preferred Stock Warrants	Series D	1,061,168	361	145
Solexel, Inc.	Energy Technology	Preferred Stock Warrants	Series B	245,682	1,161	7

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Stion Corporation(4)	Energy Technology	Preferred Stock Warrants	Series E	110,226	$ 317	$ 167
Trilliant, Inc.	Energy Technology	Preferred Stock Warrants	Series A	320,000	161	54
Total Warrants Energy Technology (0.39%)*(12)					5,199	2,016
Total Warrants (5.73%)					32,060	29,550
Equity						
Aveo Pharmaceuticals, Inc.(3)	Drug Discovery & Development	Common Stock		167,864	842	1,351
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock	Series B	502,684	502	488
Inotek Pharmaceuticals Corp.	Drug Discovery & Development	Preferred Stock	Series C	15,334	1,500	
Merrimack Pharmaceuticals, Inc.(3)	Drug Discovery & Development	Common Stock		546,448	2,000	3,328
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Preferred Stock	Series H	244,158	1,000	283
		Common Stock		47,471	5	3
Total Paratek Pharmaceuticals, Inc.				291,629	1,005	286
Total Equity Drug Discovery & Development (1.06%)*					5,849	5,453
Acceleron Pharmaceuticals, Inc.	Drug Delivery	Preferred Stock	Series B	600,601	1,000	915
		Preferred Stock	Series C	93,456	242	205
		Preferred Stock	Series E	43,488	98	174
		Preferred Stock	Series F	19,268	61	77
Total Acceleron Pharmaceuticals, Inc.				756,813	1,401	1,371
Merrion Pharma, Plc.(3)(5)(10)	Drug Delivery	Common Stock		20,000	9	
Nupathe, Inc.	Drug Delivery	Common Stock		50,000	146	142
Transcept Pharmaceuticals, Inc.(3)	Drug Delivery	Common Stock		41,570	500	185
Total Equity Drug Delivery (0.33%)*					2,056	1,698
E-band Communications, Corp.(6)	Communications & Networking	Preferred Stock	Series B	564,972	2,000	
		Preferred Stock	Series C	649,998	372	
		Preferred Stock	Series D	847,544	508	
		Preferred Stock	Series E	1,987,605	374	

Total E-band Communications, Corp.				4,050,119	3,254	
Glowpoint, Inc.[(3)]	Communications & Networking	Common Stock		114,192	101	227
Neonova Holding Company	Communications & Networking	Preferred Stock	Series A	500,000	250	200
Peerless Network, Inc.	Communications & Networking	Preferred Stock	Series A	1,000,000	1,000	3,692
Stoke, Inc.	Communications & Networking	Preferred Stock	Series E	152,905	500	631
UPH Holdings, Inc.	Communications & Networking	Common Stock		742,887		624
Total Equity Communications & Networking (1.04%)*					5,105	5,374

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Atrenta, Inc.	Software	Preferred Stock	Series C	1,196,845	$ 508	$ 1,042
		Preferred Stock	Series D	635,513	986	1,604
Total Atrenta, Inc.				1,832,358	1,494	2,646
Box, Inc.[4]	Software	Preferred Stock	Series C	390,625	500	5,117
		Preferred Stock	Series D	158,127	500	2,071
		Preferred Stock	Series D-1	124,511	1,000	1,632
		Preferred Stock	Series D-2	220,751	2,001	2,892
		Preferred Stock	Series E	38,183	500	500
Total Box, Inc.				932,197	4,501	12,212
Caplinked, Inc.	Software	Preferred Stock	Series A-3	53,614	52	77
Total Equity Software (2.89%)*					6,047	14,935
Spatial Photonics, Inc.	Electronics & Computer Hardware	Preferred Stock	Series D	4,717,813	268	
Virident Systems	Electronics & Computer Hardware	Preferred Stock	Series D	6,546,217	5,000	4,922
Total Equity Electronics & Computer Hardware (0.95%)*					5,268	4,922
Quatrx Pharmaceuticals Company	Specialty Pharmaceuticals	Preferred Stock	Series E	166,419	750	
Total Equity Specialty Pharmaceuticals (0.00%)*					750	
Caivis Acquisition Corporation	Consumer & Business Products	Common Stock	Series A	295,861	819	597
Facebook, Inc.[3]	Consumer & Business Products	Common Stock	Series B	307,500	9,558	8,089
IPA Holdings, LLC	Consumer & Business Products	Preferred Stock	LLC interest	500,000	500	711
Market Force Information, Inc.	Consumer & Business Products	Preferred Stock	Series B	187,970	500	657
Wageworks, Inc.[3]	Consumer & Business Products	Common Stock	Series D	19,260	250	343
Total Equity Consumer & Business Products (2.02%)*					11,627	10,397
iWatt, Inc.	Semiconductors	Preferred Stock	Series E	2,412,864	490	752

Total Equity Semiconductors (0.15%)*					490	752
Buzznet, Inc.	Information Services	Preferred Stock	Series C	263,158	250	
Good Technologies, Inc. (pka Visto Corporation)	Information Services	Common Stock		500,000	603	
Solutionary, Inc.	Information Services	Preferred Stock	Series A-1	189,495	18	235
		Preferred Stock	Series A-2	65,834	325	82
Total Solutionary, Inc.				255,329	343	317
Total Equity Information Services (0.06%)*					1,196	317

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2012

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Gelesis, Inc.[6]	Medical Device & Equipment		LLC Interest	674,208	$	$ 435
			LLC Interest	674,208	425	610
			LLC Interest	675,676	500	525
Total Gelesis, Inc.				2,024,092	925	1,570
Lanx, Inc.	Medical Device & Equipment	Preferred Stock	Series C	1,203,369	1,000	1,155
Novasys Medical, Inc.	Medical Device & Equipment	Preferred Stock	Series D-1	4,118,444	1,000	
Optiscan Biomedical, Corp.[6]	Medical Device & Equipment	Preferred Stock	Series B	6,185,567	3,000	314
		Preferred Stock	Series C-2	1,927,309	655	251
Total Optiscan Biomedical, Corp.				8,112,876	3,655	565
Total Equity Medical Device & Equipment (0.64%)*					6,580	3,290
NuGEN Technologies, Inc.	Biotechnology Tools	Preferred Stock	Series C	189,394	500	600
Total Equity Biotechnology Tools (0.12%)*					500	600
Transmedics, Inc.	Surgical Devices	Preferred Stock	Series B	88,961	1,100	
		Preferred Stock	Series C	119,999	300	
		Preferred Stock	Series D	260,000	650	650
Total Transmedics, Inc.				468,960	2,050	650
Gynesonics, Inc.	Surgical Devices	Preferred Stock	Series B	219,298	250	159
		Preferred Stock	Series C	656,512	282	251
Total Gynesonics, Inc.				875,810	532	410
Total Equity Surgical Devices (0.20%)*					2,582	1,060
Everyday Health, Inc. (pka Waterfront Media, Inc.)	Media/Content/ Info	Preferred Stock	Series D	145,590	1,000	412
Total Equity Media/Content/Info (0.08%)*					1,000	412
Total Equity (9.54%)					49,050	49,210

Total Investments (175.65%)	$ 914,338	$ 906,300

* Value as a percent of net assets

(1) Preferred and common stock, warrants, and equity interests are generally non-income producing.

(2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled $19.9 million, $27.6 million and $7.8 million respectively. The tax cost of investments is $916.9 million

(3) Except for warrants in twenty publicly traded companies and common stock in eight publicly traded companies, all investments are restricted at December 31, 2012 and were valued at fair value as determined in good faith by the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

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(dollars in thousands)

(4) Debt investments of this portfolio company have been pledged as collateral under the Wells Facility.
(5) Non-U.S. company or the company s principal place of business is outside the United States.
(6) Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 5% but not more than 25% of the voting securities of the company.
(7) Control investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owners at least 25% but not more than 50% of the voting securities of the company
(8) Debt is on non-accrual status at December 31, 2012, and is therefore considered non-income producing.
(9) Convertible Senior Debt
(10) Indicates assets that the Company deems not qualifying assets under section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company s total assets at the time of acquisition of any additional non-qualifying assets.
(11) Denotes that all or a portion of the loan secures the notes offered in the Debt Securitization (as defined in Note 4).
(12) In our quarterly and annual reports filed with the commission prior to this Annual Report on Form 10-K, we referred to this industry sector as Clean Tech.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

Hercules Technology Growth Capital, Inc. (the Company) is a specialty finance company focused on providing senior secured loans to venture capital-backed companies in technology-related markets, including technology, biotechnology, life science, and energy and renewables technology industries at all stages of development. The Company sources its investments through its principal office located in Palo Alto, CA, as well as through its additional offices in Boston, MA, New York, NY, Boulder, CO and McLean, VA. The Company was incorporated under the General Corporation Law of the State of Maryland in December 2003.

The Company is an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). Effective January 1, 2006, the Company has elected to be treated for tax purposes as a regulated investment company, or RIC, under the Code (see Note 5).

Hercules Technology II, L.P. (HT II), Hercules Technology III, L.P. (HT III), and Hercules Technology IV, L.P. (HT IV), are Delaware limited partnerships that were formed in January 2005, September 2009 and December 2010, respectively. HT II and HT III were licensed to operate as small business investment companies (SBICs) under the authority of the Small Business Administration (SBA) on September 27, 2006 and May 26, 2010, respectively. As SBICs, HT II and HT III are subject to a variety of regulations concerning, among other things, the size and nature of the companies in which they may invest and the structure of those investments. HT IV was formed in anticipation of receiving an additional SBIC license; however, the Company has not yet applied for such license, and HT IV currently has no material assets or liabilities. The Company also formed Hercules Technology SBIC Management, LLC, or (HTM), a limited liability company in November 2003. HTM is a wholly owned subsidiary of the Company and serves as the limited partner and general partner of HT II and HT III (see Note 4 to the Company s consolidated financial statements).

HT II and HT III hold approximately $174.1 million and $285.1 million in assets, respectively, and they accounted for approximately 11.1% and 18.2% of our total assets, respectively, prior to consolidation at December 31, 2013.

The Company also established wholly owned subsidiaries, all of which are structured as Delaware corporations and limited liability companies, to hold portfolio companies organized as limited liability companies, or LLCs (or other forms of pass-through entities). By investing through these wholly owned subsidiaries, the Company is able to benefit from the tax treatment of these entities and create a tax structure that is more advantageous with respect to the Company s RIC status.

The consolidated financial statements include the accounts of the Company, its subsidiaries and its consolidated securitization VIE. All inter-company accounts and transactions have been eliminated in consolidation. In accordance with Article 6 of Regulation S-X under the Securities Act of 1933 and the Securities and Exchange Act of 1934, the Company does not consolidate portfolio company investments.

Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries and all VIEs of which the Company is the primary beneficiary. All intercompany accounts and transactions have been eliminated in consolidation.

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A VIE is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. The primary beneficiary of a VIE is the party with both the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and the obligation to absorb the losses or the right to receive benefits that could potentially be significant to the VIE.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact its economic performance, the Company considers all the facts and circumstances including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes identifying the activities that most significantly impact the VIE s economic performance and identifying which party, if any, has power over those activities. In general, the party that makes the most significant decisions affecting the VIE is determined to have the power to direct the activities of a VIE. To assess whether the Company has the obligation to absorb the losses or the right to receive benefits that could potentially be significant to the VIE, the Company considers all of its economic interests, including debt and equity interests, servicing rights and fee arrangements, and any other variable interests in the VIE. If the Company determines that it is the party with the power to make the most significant decisions affecting the VIE, and the Company has a potentially significant interest in the VIE, then it consolidates the VIE.

The Company performs ongoing reassessments, usually quarterly, of whether it is the primary beneficiary of a VIE. The reassessment process considers whether the Company has acquired or divested the power to direct the activities of the VIE through changes in governing documents or other circumstances. The Company also reconsiders whether entities previously determined not to be VIEs have become VIEs, based on certain events, and therefore are subject to the VIE consolidation framework.

As of the date of this report, the only VIE consolidated by the Company is its securitization VIE formed in conjunction with the issuance of the Asset-Backed Notes (See Note 4).

Valuation of Investments

At December 31, 2013, 74.5% of the Company s total assets represented investments in portfolio companies that are valued at fair value by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. The Company s investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification topic 820 Fair Value Measurements and Disclosures (ASC 820). The Company s debt securities are primarily invested in venture capital-backed companies in technology-related markets, including technology, biotechnology, life science and energy and renewables technology industries. Given the nature of lending to these types of businesses, substantially all of the Company s investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, the Company values substantially all of its investments at fair value as determined in good faith pursuant to a consistent valuation policy and the Company s Board of Directors in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of the Company s investments determined in good faith by its Board may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

The Company may from time to time engage an independent valuation firm to provide the Company with valuation assistance with respect to certain portfolio investments on a quarterly basis. The Company intends to continue to engage an independent valuation firm to provide management with assistance regarding the Company s determination of the fair value of selected portfolio investments each quarter unless directed by the Board of Directors to cancel such valuation services. The scope of services rendered by an independent valuation

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firm is at the discretion of the Board of Directors. The Company s Board of Directors is ultimately and solely responsible for determining the fair value of the Company s investments in good faith.

With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, the Company s Board of Directors has approved a multi-step valuation process each quarter, as described below:

(1) the Company s quarterly valuation process begins with each portfolio company being initially valued by the investment professionals responsible for the portfolio investment;

(2) preliminary valuation conclusions are then documented and business based assumptions are discussed with the Company s investment committee;

(3) the Valuation Committee of the Board of Directors reviews the preliminary valuation of the investments in the portfolio as provided by the investment committee which incorporates the results of the independent valuation firm as appropriate;

(4) the Valuation Committee discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of, where applicable, the respective independent valuation firm and the investment committee.

ASC 820 establishes a framework for measuring the fair value of the assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. ASC 820 also enhances disclosure requirements for fair value measurements based on the level within the hierarchy of the information used in the valuation. ASC 820 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company has categorized all investments recorded at fair value in accordance with ASC 820 based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC 820 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date. The types of assets carried at Level 1 fair value generally are equities listed in active markets.

Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset in connection with market data at the measurement date and for the extent of the instrument s anticipated life. Fair valued assets that are generally included in this category are warrants held in a public company.

Level 3 Inputs reflect management s best estimate of what market participants would use in pricing the asset at the measurement date. It includes prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Generally, assets carried at fair value and included in this category are the debt investments and warrants and equities held in a private company.

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In accordance with ASU 2011-04, the following table provides quantitative information about the Company s Level 3 fair value measurements of the Company s investments as of December 31, 2013. In addition to the techniques and inputs noted in the table below, according to the Company s valuation policy the Company may also use other valuation techniques and methodologies when determining the Company s fair value measurements. The below table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to the Company s fair value measurements.

Investment Type - Level Three Debt Investments	**Fair Value at December 31, 2013** *(in thousands)*	**Valuation Techniques/ Methodologies**	**Unobservable Input**[(a)]	**Range**	**Weighted Average**[(c)]
Pharmaceuticals Debt	25,811 250,607	Originated Within 6 Months	Origination Yield	12.56% - 14.53%	13.36%
		Market Comparable Companies	Hypothetical Market Yield	13.83% - 15.47%	14.13%
			Premium/(Discount)	(1.00%) - 0.00%	
Medical Devices Debt	46,900 34,723	Originated Within 6 Months	Origination Yield	13.54% - 17.37%	14.87%
		Market Comparable Companies	Hypothetical Market Yield	14.32% - 17.37%	15.23%
			Premium/(Discount)	(1.00%) - 1.00%	
Technology Debt	18,796 98,290	Originated Within 6 Months	Origination Yield	10.62% - 15.97%	14.26%
		Market Comparable Companies	Hypothetical Market Yield	14.72% - 21.08%	15.48%
Energy Technology Debt	1,643 32,597 108,238	Liquidation	Premium/(Discount)	0.00% - 1.00%	15.17%
		Originated Within 6 Months	Probability weighting of alternative outcomes	30.00% - 70.00%	15.37%
		Market Comparable Companies	Origination Yield	14.68% - 15.87%	
			Hypothetical Market Yield	15.37%	
			Premium/(Discount)	(0.50%) - 1.50%	
Lower Middle Market Debt	121,347 31,818 12,576	Market Comparable Companies	Hypothetical Market Yield	14.83% - 19.73%	16.12%
		Broker Quote[(b)]	Premium/(Discount)	0.00% - 1.00%	
		Liquidation	Price Quotes	99.50% - 100.25% of par	
			Par Value	$2.0 - $22.5 million	
			Probability weighting of alternative outcomes	20.00% - 80.00%	
		Debt Investments Where Fair Value Approximates Amortized Cost			
	15,906	Imminent Payoffs			
	22,236	Debt Investments Maturing in Less than One Year			
	500	Convertible Debt at Par			
	$821,988	Total Level Three Debt Investments			

(a) The significant unobservable inputs used in the fair value measurement of our debt securities are hypothetical market yields and premiums/(discounts). The hypothetical market yield is defined as the exit price of an investment in a hypothetical market to hypothetical market participants where buyers and sellers are willing participants. The premiums (discounts) relate to company specific characteristics such as underlying investment performance, security liens, and other characteristics of the investment. Significant increases (decreases) in the inputs in isolation would result in a significantly lower (higher) fair value measurement, depending on the materiality of the investment. Debt investments in the industries noted in our Consolidated Schedule of Investments are included in the industries note above as follows:

Pharmaceuticals, above, is comprised of debt investments in the Therapeutic, Specialty Pharmaceuticals, Drug Discovery and Development, Drug Delivery, and Diagnostics and Biotechnology industries in the Schedule of Investments.

Medical Devices, above, is comprised of debt investments in the Therapeutic, Surgical Devices, Medical Devices and Equipment and Biotechnology Tools industries in the Schedule of Investments.

Technology, above, is comprised of debt investments in the Software, Semiconductors, Internet Consumer and Business Services, Information Services, and Communications and Networking industries in the Schedule of Investments.

Lower Middle Market, above, is comprised of debt investments in the Communications and Networking, Electronics and Computer Hardware, Healthcare Services Other, Information Services, Internet Consumer and Business Services, Media/Content/Info, and Specialty Pharmaceuticals industries in the Schedule of Investments.

Energy Technology, above, aligns with the Energy Technology Industry in the Schedule of Investments.

(b) A broker quote valuation technique was used to derive the fair value of loans which are part of a syndicated facility.

(c) The weighted averages are calculated based on the fair market value of each investment.

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	air Value at ember 31, 2012 *(n thousands)*	Valuation Techniques/Methodologies	Unobservable Input (a)
	$266,978	Market Comparable Companies Option Pricing Model (b)	Hypothetical Market Yield Premium/(Discount) Average Industry Volatility (c) Risk Free Interest Rate Estimated Time to Exit (in months
	46,022	Market Comparable Companies	Hypothetical Market Yield Premium
	159,341	Market Comparable Companies Liquidation	Hypothetical Market Yield Premium/(Discount) Investment Collateral
	91,305	Market Comparable Companies	Hypothetical Market Yield Premium
t	263,894	Market Comparable Companies Broker Quote (d)	Hypothetical Market Yield Premium Price Quotes Market Comparable Index Yield Spreads Par Value
	$827,540		

(a) The significant unobservable inputs used in the fair value measurement of the Company s debt securities are hypothetical market yields and premiums/(discounts). The hypothetical market yield is defined as the exit price of an investment in a hypothetical market to hypothetical market participants where buyers and sellers are willing participants. The premiums (discounts) relate to company specific characteristics such as underlying investment performance, security liens, and other characteristics of the investment. Significant increases (decreases) in the inputs in isolation would result in a significantly lower (higher) fair value measurement, depending on the materiality of the investment. Debt investments in the industries noted in the Company s Schedule of Investments are included in the industries note above as follows:

Pharmaceuticals, above, is comprised of debt investments in the Specialty Pharmaceuticals, Drug Discovery and Development, Drug Delivery, and Diagnostics and Biotechnology industries in the Schedule of Investments.

Medical Devices, above, is comprised of debt investments in the Therapeutic, Surgical Devices, Medical Devices and Equipment and Biotechnology Tools industries in the Schedule of Investments.

Technology, above, is comprised of debt investments in the Software, Semiconductors, Electronics and Computer Hardware, Internet Consumer and Business Services, Information Services, Media/Content/Info and Communications and Networking industries in the Schedule of Investments.

Lower Middle Market, above, is comprised of debt investments in the Communications and Networking, Software, Electronics and Computer Hardware, Information Services, Internet Consumer and Business Services, Media/Content/Info, and Specialty Pharmaceuticals industries in the Schedule of Investments.

Energy Technology, above, aligns with the Energy Technology industry in the Schedule of Investments.

(b) An option pricing model valuation technique was used to derive the conversion feature of convertible notes.

(c) Represents the range of industry volatility used by market participants when pricing the investment.

(d) A broker quote valuation technique was used to derive the fair value of loans which are part of a syndicated facility.

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Investment Type -	Fair Value at December 31, 2013 *(in thousands)*	Valuation Techniques/ Methodologies	Unobservable Input[a]	Range
Level Three Equity Investments	$10,244	Market Comparable	EBITDA Multiple[b]	8.6x - 17.7x
		Companies	Revenue Multiple[b]	0.7x - 13.8x
			Discount for Lack of	9.1% - 23.6%
			Marketability[c]	43.4% - 110.7%
			Average Industry Volatility[d]	0.1% - 0.4%
			Risk-Free Interest Rate	6 - 30
			Estimated Time to Exit	
			(in months)	
	9,289	Market Adjusted OPM Backsolve	Average Industry Volatility[d]	45.6% - 109.7%
			Risk-Free Interest Rate	0.1% - 0.9%
			Estimated Time to Exit	6 - 42
			(in months)	
	18,127	Other	Average Industry Volatility[d]	44.0%
			Risk-Free Interest Rate	0.1%
			Estimated Time to Exit	12
			(in months)	
Level Three Warrant Investments	$10,200	Market Comparable Companies	EBITDA Multiple[b]	
			Revenue Multiple[b]	
			Discount for Lack of	5.0x - 51.4x
			Marketability[c]	0.5x - 13.8x
			Average Industry Volatility[d]	6.4% - 36.0%
			Risk-Free Interest Rate	21.3% - 110.7%
			Estimated Time to Exit	0.1% - 1.0%
			(in months)	6 - 48
	8,913	Market Adjusted OPM Backsolve	Average Industry Volatility[d]	35.7% - 109.9%
			Risk-Free Interest Rate	0.1% - 2.7%

			Estimated Time to Exit	3 - 48
			(in months)	
	9,595	Other	Average Industry Volatility[(d)]	
			Risk-Free Interest Rate	44.0% - 56.9%
			Estimated Time to Exit	0.1% - 1.0%
			(in months)	12 - 48
Total Level Three Warrant and Equity Investments	$66,368			

(a) The significant unobservable inputs used in the fair value measurement of the Company s warrant and equity-related securities are revenue and/or EBITDA multiples and discounts for lack of marketability. Additional inputs used in the Black Scholes option pricing model include industry volatility, risk free interest rate and estimated time to exit. Significant increases (decreases) in the inputs in isolation would result in a significantly higher (lower) fair value measurement, depending on the materiality of the investment. For some investments, additional consideration may be given to data from the last round of financing or merger/acquisition events near the measurement date.

(b) Represents amounts used when the Company has determined that market participants would use such multiples when pricing the investments.

(c) Represents amounts used when the Company has determined market participants would take into account these discounts when pricing the investments.

(d) Represents the range of average industry volatility used by market participants when pricing the investment.

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Investment Type-	**Fair Value at December 31, 2012** *(in thousands)*	**Valuation Techniques/ Methodologies**	**Unobservable Input**[(a)]	**Range**
Level Three Warrant and Equity	$57,685	Market Comparable Companies	EBITDA Multiple[(b)]	1.43x -20.68x
			Revenue Multiple[(b)]	0.42x - 16.98x
Investments			Discount for Lack of Marketability[(c)]	10.4% - 25.2%
Warrant positions additionally subject to:		Option Pricing Model	Average Industry Volatility[(d)]	46.49% - 141.2%
			Risk-Free Interest Rate	0.17% - 0.46%
			Estimated Time to Exit	12 - 48
			(in months)	
Total Level Three Warrant and Equity Investments	$57,685			

(a) The significant unobservable inputs used in the fair value measurement of the Company s warrant and equity-related securities are revenue and/or EBITDA multiples and discounts for lack of marketability. Additional inputs used in the Black Scholes option pricing model include industry volatility, risk free interest rate and estimated time to exit. Significant increases (decreases) in the inputs in isolation would result in a significantly higher (lower) fair value measurement, depending on the materiality of the investment. For some investments, additional consideration may be given to data from the last round of financing or merger/acquisition events near the measurement date.

(b) Represents amounts used when the Company has determined that market participants would use such multiples when pricing the investments.

(c) Represents amounts used when the Company has determined market participants would take into account these discounts when pricing the investments.

(d) Represents the range of industry volatility used by market participants when pricing the investment.

Debt Investments

The Company follows the guidance set forth in ASC 820 which establishes a framework for measuring the fair value of assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. The Company s debt securities are primarily invested in venture capital-backed companies in technology-related markets, including technology, biotechnology, life science and energy and renewables technology industries. Given the nature of lending to these types of businesses, the Company s investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for debt instruments for these investment securities to be traded or exchanged.

In making a good faith determination of the value of our investments, the Company generally starts with the cost basis of the investment, which includes the value attributed to the OID, if any, and PIK interest or other receivables which have been accrued to principal as earned. The Company then applies the valuation methods as set forth below.

The Company applies a procedure that assumes a sale of investment in a hypothetical market to a hypothetical market participant where buyers and sellers are willing participants. The hypothetical market does not include scenarios where the underlying security was simply repaid or extinguished, but includes an exit concept. Under this process, the Company also evaluates the collateral for recoverability of the debt investments as well as applies all of its historical fair value analysis. The Company uses pricing on recently issued comparable debt securities to determine the baseline hypothetical market yields as of the measurement date.

The Company considers each portfolio company s credit rating, security liens and other characteristics of the investment to adjust the baseline yield to derive a hypothetical yield for each investment as of the measurement date. The anticipated future cash flows from each investment are then discounted at the hypothetical yield to estimate each investment s fair value as of the measurement date.

The Company s process includes, among other things, the underlying investment performance, the current portfolio company s financial condition and market changing events that impact valuation, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. The Company values its syndicated loans, which represent less than 4.0% of the Company s debt investment portfolio, using

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broker quotes and bond indices amongst other factors. If there is a significant deterioration of the credit quality of a debt investment, the Company may consider other factors to estimate fair value, including the proceeds that would be received in a liquidation analysis.

The Company records unrealized depreciation on investments when it believes that an investment has decreased in value, including where collection of a loan is doubtful or, if under the in-exchange premise, when the value of a debt security was to be less than amortized cost of the investment. Conversely, where appropriate, the Company records unrealized appreciation if it believes that the underlying portfolio company has appreciated in value and, therefore, that its investment has also appreciated in value or, if under the in-exchange premise, the value of a debt security were to be greater than amortized cost.

When originating a debt instrument, the Company generally receives warrants or other equity-related securities from the borrower. The Company determines the cost basis of the warrants or other equity-related securities received based upon their respective fair values on the date of receipt in proportion to the total fair value of the debt and warrants or other equity-related securities received. Any resulting discount on the debt investments from recordation of the warrant or other equity instruments is accreted into interest income over the life of the debt investments.

Equity-Related Securities and Warrants

Securities that are traded in the over-the-counter markets or on a stock exchange will be valued at the prevailing bid price at period end. The Company has a limited number of equity securities in public companies. In accordance with the 1940 Act, unrestricted publicly traded securities for which market quotations are readily available are valued at the closing market quote on the measurement date.

The Company estimates the fair value of warrants using a Black Scholes pricing model. At each reporting date, privately held warrant and equity-related securities are valued based on an analysis of various factors including, but not limited to, the portfolio company s operating performance and financial condition and general market conditions, price to enterprise value or price to equity ratios, discounted cash flow, valuation comparisons to comparable public companies or other industry benchmarks. When an external event occurs, such as a purchase transaction, public offering, or subsequent equity sale, the pricing indicated by that external event is utilized to corroborate the Company s valuation of the warrant and equity-related securities. The Company periodically reviews the valuation of its portfolio companies that have not been involved in a qualifying external event to determine if the enterprise value of the portfolio company may have increased or decreased since the last valuation measurement date.

Investments measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of December 31, 2013 and as of December 31, 2012. The Company transfers investments in and out of Level 1, 2 and 3 securities as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the year ended December 31, 2013, there were no transfers between Levels 1 or 2.

(in thousands)		Investments at Fair Value as of December 31, 2013		
Description	**12/31/2013**	**Quoted Prices In Active Markets For Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Senior secured debt	$ 821,988	$	$	821,988
Preferred stock	35,554			35,554
Common stock	17,116	15,009		2,107
Warrants	35,637		6,930	28,707
	$ 910,295	$ 15,009	$ 6,930	$ 888,356

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(in thousands) Description	12/31/2012	Investments at Fair Value as of December 31, 2012 Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior secured debt	$ 827,540	$	$	$ 827,540
Preferred stock	33,178			33,178
Common stock	16,032	13,665		2,367
Warrants	29,550		7,410	22,140
	$ 906,300	$ 13,665	$ 7,410	$ 885,225

The table below presents reconciliation for all financial assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the years ended December 31, 2013 and December 31, 2012.

(in thousands)	Balance, January 1, 2013	Net Realized Gains (losses)(1)	Net change in unrealized appreciation or depreciation(2)	Purchases	Sales	Repayments	Gross Transfers into Level 3(3)	Gross Transfers out of Level 3(3)	Balances, December 31, 2013
Senior Debt	$ 827,540	$ (9,536)	$ (8,208)	$ 484,367	$ (8)	$ (469,780)	$ 769	$ (3,156)	$ 821,988
Preferred Stock	33,178	7,968	7,682	6,198	(18,572)		776	(1,676)	35,554
Common Stock	2,367		(1,103)	750			93		2,107
Warrants..	22,140	5,257	6,173	6,524	(10,350)			(1,037)	28,707
Total	$ 885,225	$ 3,689	$ 4,544	$ 497,839	$ (28,930)	$ (469,780)	$ 1,638	$ (5,869)	$ 888,356

(in thousands)	Balance, January 1, 2012	Net Realized Gains (losses)(1)	Net change in unrealized appreciation or depreciation(2)	Purchases	Sales	Repayments	Gross Transfers into Level 3	Gross Transfers out of Level 3	Balances, December 31, 2012
Senior Debt	$ 585,767	$ (5,178)	$ (2,262)	$ 545,913	$ (2,000)	$ (294,294)	$	$ (406)	$ 827,540
Preferred Stock	29,929	$ (733)	3,761	10,562	(6,553)		356	(4,144)	33,178
Common Stock	450	$ (16)	5,873	9,558	(45)			(13,453)	2,367
Warrants	26,284	$ 4,413	(2,452)	7,362	(9,211)			(4,256)	22,140
Total	$ 642,430	$ (1,514)	$ 4,920	$ 573,395	$ (17,809)	$ (294,294)	$ 356	$ (22,259)	$ 885,225

(1) Includes net realized gains (losses) recorded as realized gains or losses in the accompanying consolidated statements of operations.
(2) Included in change in net unrealized appreciation or depreciation in the accompanying consolidated statements of operations.
(3) Transfers in/out of Level 3 relate to the conversion of Optiscan Biomedical, Inc., Gynesonics, Inc., Philotic, Inc., and Tethys Bioscience, Inc. debt to equity, the conversion of OCZ Technology warrants to principal and the initial public offerings of Portola Pharmaceuticals, Inc., Acceleron Pharma, Inc., Bind, Inc, and ADMA Biologics, Inc.

For the year ended December 31, 2013, approximately $4.4 million and $4.1 million in net unrealized appreciation was recorded for preferred stock and warrant Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately $8.2 million and $1.1 million in net unrealized depreciation was recorded for debt and common stock Level 3 investments, respectively, relating to assets still held at the reporting date.

For the year ended December 31, 2012, approximately $3.8 million in unrealized appreciation and $2.2 million in unrealized depreciation was recorded for equity and warrant Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately $2.3 million in unrealized depreciation was recorded for Level 3 debt investments relating to assets still held at the reporting date.

As required by the 1940 Act, the Company classifies its investments by level of control. Control investments are defined in the 1940 Act as investments in those companies that the Company is deemed to control . Generally, under the 1940 Act, the Company is deemed to control a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board. Affiliate investments are investments in those companies that are affiliated companies of the Company, as defined in the 1940 Act, which are not control investments. The Company is deemed to be an affiliate of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company. Non-control/non-affiliate investments are investments that are neither control investments nor affiliate investments.

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The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on control and affiliate investments for the years ended December 31, 2013, 2012, and 2011. At December 31, 2013 and December 31, 2012, the Company did not hold any Control Investments.

(in thousands)				Year ended December 31, 2013		
Portfolio Company	**Type**	**Fair Value at December 31, 2013**	**Investment Income**	**Unrealized (Depreciation)/ Appreciation**	**Reversal of Unrealized (Depreciation)/ Appreciation**	**Realized Gain/(Loss)**
Gelesis, Inc.	Affiliate	$ 473	$	$ (1,193)	$	$
Optiscan BioMedical, Corp.	Affiliate	4,784	1,933	(225)		
Stion Corporation	Affiliate	5,724	462	593		
Total		$ 10,981	$ 2,395	$ (825)	$	$

(in thousands)				Year ended December 31, 2012		
Portfolio Company	**Type**	**Fair Value at December 31, 2012**	**Investment Income**	**Unrealized (Depreciation)/ Appreciation**	**Reversal of Unrealized (Depreciation)/ Appreciation**	**Realized Gain/(Loss)**
E-Band Communications, Corp.	Affiliate	$	$ 4	$ (18)	$	$
Gelesis, Inc.	Affiliate	1,665	712	672		
Optiscan BioMedical, Corp.	Affiliate	10,207	1,649	(2,722)		
Total		$ 11,872	$ 2,365	$ (2,068)	$	$

(in thousands)				Year ended December 31, 2011		
Portfolio Company	**Type**	**Fair Value at December 31, 2011**	**Investment Income**	**Unrealized (Depreciation)/ Appreciation**	**Reversal of Unrealized (Depreciation)/ Appreciation**	**Realized Gain/(Loss)**
MaxVision Holdings, LLC.	Control	$ 1,027	$ 889	$ 5,158	$	$
E-Band Communications, Corp.	Affiliate		14	3,425		
Total		$ 1,027	$ 903	$ 8,583	$	$

During the year ended December 31, 2013, Stion Corporation became classified as an affiliate. The Company s investment in E-Band Communications, Corp., a company that was an affiliate investment as of December 31, 2012, was liquidated during the year ended December 31, 2013. Approximately $3.3 million of realized losses and a reversal of $3.3 million of previously recorded unrealized depreciation was recognized on this affiliate equity investment during the year ended December 31, 2013.

During the year ended December 31, 2012, Optiscan BioMedical, Corp. became classified as an affiliate. The Company s investment in MaxVision Holding, L.L.C., a company that was a control investment as of December 31, 2011, was liquidated during the year ended

December 31, 2012. On July 31, 2012, the Company received payment of $2.0 million for its total debt investments in Maxvision Holding, L.L.C. Approximately $8.7 million of realized losses and a reversal of $10.5 million of previously recorded unrealized depreciation was recognized on this control debt and equity investment during the year ended December 31, 2012.

A summary of the composition of the Company s investment portfolio as of December 31, 2013 and December 31, 2012 at fair value is shown as follows:

	December 31, 2013		**December 31, 2012**	
(in thousands)	**Investments at Fair Value**	**Percentage of Total Portfolio**	**Investments at Fair Value**	**Percentage of Total Portfolio**
Senior secured debt with warrants	$ 634,820	69.7%	$ 652,041	72.0%
Senior secured debt	222,805	24.5%	205,049	22.6%
Preferred stock	35,554	3.9%	33,178	3.7%
Common Stock	17,116	1.9%	16,032	1.7%
	$ 910,295	100.0%	$ 906,300	100.0%

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A summary of the Company s investment portfolio, at value, by geographic location as of December 31, 2013 and December 31, 2012 is shown as follows:

	December 31, 2013		December 31, 2012	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
United States	$ 864,003	94.9%	$ 901,041	99.4%
Canada	25,798	2.8%		
Netherlands	10,131	1.1%		
Israel	9,863	1.1%		
England	500	0.1%	5,259	0.6%
	$ 910,295	100.0%	$ 906,300	100.0%

The following table shows the fair value the Company s portfolio by industry sector at December 31, 2013 and December 31, 2012:

	December 31, 2013		December 31, 2012	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery & Development	$ 219,169	24.1%	$ 188,479	20.8%
Energy Technology(1)	164,466	18.1%	126,600	14.0%
Internet Consumer & Business Services	122,073	13.4%	136,149	15.0%
Medical Devices & Equipment	103,614	11.4%	54,575	6.0%
Software	65,218	7.2%	70,838	7.8%
Drug Delivery	62,022	6.8%	74,218	8.2%
Information Services	46,565	5.1%	53,523	5.9%
Communications & Networking	35,979	4.0%	37,560	4.1%
Healthcare Services, Other	29,080	3.2%	36,481	4.0%
Specialty Pharmaceuticals	20,055	2.2%	12,473	1.4%
Surgical Devices	10,307	1.0%	11,358	1.3%
Electronics & Computer Hardware	9,211	1.0%	12,715	1.4%
Media/Content/Info	8,679	1.0%	51,534	5.7%
Biotechnology Tools	5,275	0.6%	6,845	0.8%
Semiconductors	4,685	0.5%	2,922	0.3%
Consumer & Business Products	2,995	0.3%	13,723	1.5%
Diagnostic	902	0.1%	16,307	1.8%
	$ 910,295	100.0%	$ 906,300	100.0%

(1) In our quarterly and annual reports filed with the Commission prior to this Annual Report of Form 10-K, we referred to this industry sector as Clean Tech .

During the year ended December 31, 2013, the Company funded investments in debt securities and equity investments totaling approximately $491.1 million and $3.9 million, respectively. The Company converted approximately $3.2 million of debt to equity in four portfolio companies in the year ended December 31, 2013.

During the year ended December 31, 2012, the Company funded investments in debt securities and equity investments, totaling approximately $486.8 million and $9.7 million, respectively. During the year ended December 31, 2012, the Company converted approximately $356,000 of debt to equity in one portfolio company.

No single portfolio investment represents more than 10% of the fair value of the investments as of December 31, 2013 and December 31, 2012.

During the year ended December 31, 2013, the Company recognized net realized gains of approximately $14.8 million on the portfolio. These net realized gains included gross realized gains of approximately $32.6 million primarily from the sale of investments in nine portfolio companies, partially offset by gross realized losses of approximately $17.8 million primarily from the liquidation of the Company s investments in five portfolio companies.

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During the year ended December 31, 2012, the Company recognized net realized gains of approximately $3.2 million on the portfolio. These net realized gains included $17.5 million of gross realized gains offset by $14.3 million of gross realized losses. The Company recorded gross realized gains of approximately $17.5 million primarily from the sale of investments in five portfolio companies. These gains were offset by gross realized losses of approximately $14.3 million primarily from the liquidation of the Company s investments in four portfolio companies.

Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan s yield over the contractual life of the loan. Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. The Company had approximately $4.0 million and $2.0 million of unamortized fees at December 31, 2013 and December 31, 2012, respectively, and approximately $14.4 million and $6.8 million in exit fees receivable at December 31, 2013 and December 31, 2012, respectively.

The Company has loans in its portfolio that contain a payment-in-kind (PIK) provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company s status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though the Company has not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. The Company recorded approximately $3.5 million and $1.5 million in PIK income in the years ended December 31, 2013 and 2012, respectively.

In certain investment transactions, the Company may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment transaction closes. The Company had no income from advisory services in the years ended December 31, 2013 and December 31, 2012.

In the majority of cases, the Company collateralizes its investments by obtaining a first priority security interest in a portfolio company s assets, which may include its intellectual property. In other cases, the Company may obtain a negative pledge covering a company s intellectual property. At December 31, 2013, approximately 62.8% of the Company s portfolio company loans were secured by a first priority security in all of the assets of the portfolio company (including their intellectual property), 37.1% of portfolio company loans were to portfolio companies that were prohibited from pledging or encumbering their intellectual property and 0.1% of portfolio company loans had an equipment only lien.

Income Recognition

The Company records interest income on the accrual basis and recognizes it as earned in accordance with the contractual terms of the loan agreement to the extent that such amounts are expected to be collected. Original Issue Discount (OID) initially represents the value of detachable equity warrants obtained in conjunction with the acquisition of debt securities and is accreted into interest income over the term of the loan as a yield enhancement. When a loan becomes 90 days or more past due, or if management otherwise does not expect the portfolio company to be able to service its debt and other obligations, we will generally place the loan on non-accrual status and cease recognizing interest income on that loan until all principal has been paid. Any uncollected interest related to prior periods is reversed from income in the period that collection of the interest receivable is determined to be doubtful. However, the Company may make exceptions to this policy if the investment has sufficient collateral value and is in the process of collection. At December 31, 2013, the Company had two loans on non-accrual with a cumulative investment cost and fair value of approximately $23.3 million and $12.6 million, respectively, compared to one loan on non-accrual at December 31, 2012 with an approximate investment cost of $347,000 and no fair market value. During the fourth quarter of 2013 we recognized a realized loss of approximately $350,000 of principal on our debt investments in this company.

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Paid-In-Kind and End of Term Income

Contractual paid-in-kind (PIK) interest, which represents contractually deferred interest added to the loan balance that is generally due at the end of the loan term, is generally recorded on the accrual basis to the extent such amounts are expected to be collected. The Company will generally cease accruing PIK interest if there is insufficient value to support the accrual or management does not expect the portfolio company to be able to pay all principal and interest due. In addition, the Company may also be entitled to an end-of-term payment that is amortized into income over the life of the loan. To maintain the Company s status as a RIC, PIK and end-of-term income must be paid out to stockholders in the form of dividends even though the cash has not yet been collected. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments.

Fee Income

Fee income, generally collected in advance, includes loan commitment and facility fees for due diligence and structuring, as well as fees for transaction services and management services rendered by us to portfolio companies and other third parties. Loan and commitment fees are amortized into income over the contractual life of the loan. Management fees are generally recognized as income when the services are rendered. Loan origination fees are capitalized and then amortized into interest income using the effective interest rate method. In certain loan arrangements, warrants or other equity interests are received from the borrower as additional origination fees.

The Company recognizes nonrecurring fees amortized over the remaining term of the loan commencing in the quarter relating to specific loan modifications. Certain fees may still be recognized as one-time fees, including prepayment penalties, fees related to select covenant default waiver fees and acceleration of previously deferred loan fees and original issue discount (OID) related to early loan pay-off or material modification of the specific debt outstanding.

Equity Offering Expenses

Our offering costs are charged against the proceeds from equity offerings when received.

Debt Issuance Costs

Debt issuance costs are fees and other direct incremental costs incurred by the Company in obtaining debt financing. Debt issuance costs are recognized as prepaid expenses and amortized over the life of the related debt instrument using the straight line method, which closely approximates the effective yield method. Prepaid financing costs, net of accumulated amortization, were as follows as of December 31, 2013 and December 31, 2012:

	As of December 31,	
(in thousands)	**2013**	**2012**
Wells Facility	$ 398	$ 867
Convertible Debt	1,323	1,900
Asset Backed Notes	2,686	4,074
2019 Notes	5,319	6,287
SBA Debenture	5,074	5,877
	$ 14,800	$ 19,005

Cash Equivalents

The Company considers money market funds and other highly liquid short-term investments with a maturity of less than 90 days to be cash equivalents.

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Stock Based Compensation

The Company has issued and may, from time to time, issue additional stock options and restricted stock to employees under our 2004 Equity Incentive Plan and Board members under our 2006 Equity Incentive Plan. Management follows ASC 718, formally known as FAS 123R *Share-Based Payments* to account for stock options granted. Under ASC 718, compensation expense associated with stock based compensation is measured at the grant date based on the fair value of the award and is recognized over the vesting period. Determining the appropriate fair value model and calculating the fair value of stock-based awards at the grant date requires judgment, including estimating stock price volatility, forfeiture rate and expected option life.

Earnings Per Share (EPS)

Basic EPS is calculated by dividing net earnings applicable to common shareholders by the weighted average number of common shares outstanding. Common shares outstanding includes common stock and restricted stock for which no future service is required as a condition to the delivery of the underlying common stock. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of the common stock deliverable pursuant to stock options and to restricted stock for which future service is required as a condition to the delivery of the underlying common stock.

Income Taxes

The Company operates to qualify to be taxed as a RIC under the Code. Generally, a RIC is entitled to deduct dividends it pays to its shareholders from its income to determine taxable income. Taxable income includes our taxable interest, dividend and fee income, as well as taxable net capital gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as gains or losses are not included in taxable income until they are realized. In addition, gains realized for financial reporting purposes may differ from gains included in taxable income as a result of our election to recognize gains using installment sale treatment, which generally results in the deferment of gains for tax purposes until notes or other amounts, including amounts held in escrow, received as consideration from the sale of investments are collected in cash. Taxable income includes non-cash income, such as changes in accrued and reinvested interest and dividends, which includes contractual payment-in-kind interest, and the amortization of discounts and fees. Cash collections of income resulting from contractual PIK interest or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation and amortization expense.

As a RIC, the Company will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless the we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the 1-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in the preceding year (the Excise Tax Avoidance Requirements). The Company will not be subject to excise taxes on amounts on which we are required to pay corporate income tax (such as retained net capital gains). Depending on the level of taxable income earned in a tax year, we may choose to carry over taxable income in excess of current year distributions from such taxable income into the next tax year and pay a 4% excise tax on such income, as required. The maximum amount of excess taxable income that may be carried over for distribution in the next year under the Code is the total amount of dividends paid in the following year, subject to certain declaration and payment guidelines. To the extent we choose to carry over taxable income into the next tax year, dividends declared and paid by us in a year may differ from taxable income for that year as such dividends may include the distribution of current year taxable income, the distribution of prior year taxable income carried over into and distributed in the current year, or returns of capital.

At December 31, 2013, 2012, and 2011, no excise tax was recorded. We intend to distribute approximately $3.8 million of spillover earnings from the year ended December 31, 2013 to our shareholders in 2014. We

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distributed approximately $1.5 million of spillover earnings from the year ended December 31, 2012 to our shareholders in 2013.

Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statement to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes.

Comprehensive Income

The Company reports all changes in comprehensive income in the Consolidated Statement of Operations. Comprehensive income is equal to net increase in net assets resulting from operations.

Dividends

Dividends and distributions to common stockholders are approved by the Board of Directors on a quarterly basis and the dividend payable is recorded on the ex-dividend date.

We maintain an opt out dividend reinvestment plan that provides for reinvestment of our distribution on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our Board of Directors authorizes, and we declare a cash dividend, then our stockholders who have not opted out of our dividend reinvestment plan will have their cash dividend automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends. During 2013, 2012, and 2011, the Company issued approximately 159,000, 219,000, and 167,000 shares, respectively, of common stock to shareholders in connection with the dividend reinvestment plan.

Segments

The Company lends to and invests in portfolio companies in various technology-related companies, including energy technology, life science, and special opportunity lower middle market companies. The Company separately evaluates the performance of each of its lending and investment relationships. However, because each of these loan and investment relationships has similar business and economic characteristics, they have been aggregated into a single lending and investment segment.

Recent Accounting Pronouncements

In June 2013, the FASB issued ASU 2013-08, Financial Services Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements, which amends the criteria that define an investment company and clarifies the measurement guidance and requires new disclosures for investment companies. Under ASU 2013-08, an entity already regulated under the 1940 Act is automatically an investment company under the new GAAP definition, so we anticipate no impacts from adopting this standard on our statement of assets and liabilities or results of operations. We are currently assessing the additional disclosure requirements. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013.

3. Fair Value of Financial Instruments

Fair value estimates are made at discrete points in time based on relevant information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. The Company believes that the carrying amounts of its financial instruments, consisting of cash and cash equivalents, receivables, accounts payable and accrued liabilities, approximate the

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fair values of such items due to the short maturity of such instruments. The Convertible Senior Notes, 2019 Notes payable (the April 2019 Notes and the September 2019 Notes , together the 2019 Notes), the Asset-Backed Notes and the SBA debentures as sources of liquidity remain a strategic advantage due to their flexible structure, long-term duration, and low fixed interest rates. At December 31, 2013, the April 2019 Notes were trading on the New York Stock Exchange for $1.021 per dollar at par value and the September 2019 Notes were trading on the New York Stock Exchange for $1.016 per dollar at par value. Based on market quotations on or around December 31, 2013, the Convertible Senior Notes were trading for $1.403 per dollar at par value and the Asset-Backed Notes were trading for $1.004 per dollar at par value. Calculated based on the net present value of payments over the term of the notes using estimated market rates for similar notes and remaining terms, the fair value of the SBA debentures would be approximately $222.7 million, compared to the carrying amount of $225.0 million as of December 31, 2013.

See the accompanying Consolidated Schedule of Investments for the fair value of the Company s investments. The methodology for the determination of the fair value of the Company s investments is discussed in Note 2.

The liabilities of the Company below are recorded at amortized cost and not at fair value on the Consolidated Statement of Assets and Liabilities. The following table provides additional information about the level in the fair value hierarchy of the Company s liabilities at December 31, 2013.

(in thousands)

Description	**December 31, 2013**	**Identical Assets (Level 1)**	**Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
Convertible Senior Notes	$ 105,206	$	$ 105,206	$
Asset Backed Notes	$ 89,893	$	$	$ 89,893
April 2019 Notes	$ 86,281	$	$ 86,281	$
September 2019 Notes	$ 87,248	$	$ 87,248	$
SBA Debentures	$ 222,742	$	$	$ 222,742

The following table provides information about the level in the fair value hierarchy of the Company s liabilities at December 31, 2012.

(in thousands)

Description	**December 31, 2012**	**Identical Assets (Level 1)**	**Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
Convertible Senior Notes	$ 77,813	$	$ 77,813	$
Asset Backed Notes	$ 129,300	$	$	$ 129,300
April 2019 Notes	$ 83,307	$	$ 83,307	$
September 2019 Notes	$ 86,150	$	$ 86,150	$
SBA Debentures	$ 242,300	$	$	$ 242,300

4. Borrowings

Outstanding Borrowings

At December 31, 2013 and December 31, 2012, the Company had the following borrowing capacity and outstanding borrowings:

	December 31, 2013		**December 31, 2012**	
(in thousands)	**Total Available**	**Carrying Value[(1)]**	**Total Available**	**Carrying Value[(1)]**
SBA Debentures[(2)].	$ 225,000	$ 225,000	$ 225,000	$ 225,000
2019 Notes .	170,364	170,364	170,364	170,364
Asset-Backed Notes	89,557	89,557	129,300	129,300
Convertible Senior Notes[(3)]	75,000	72,519	75,000	71,436
Wells Facility	75,000		75,000	
Union Bank Facility	30,000		30,000	

Total	$ 664,921	$ 557,440	$ 704,664	$ 596,100

(1) Except for the Convertible Senior Notes (as defined below), all carrying values are the same as the principal amount outstanding.

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(2) At December 31, 2013 and at December 31, 2012, the total available borrowings under the SBA was $225.0 million, of which $76.0 million was available in HT II and $149.0 million was available in HT III.

(3) Represents the aggregate principal amount outstanding of the Convertible Senior Notes (as defined below) less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was $2.5 million at December 31, 2013 and $3.6 million at December 31, 2012.

Long-term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With the Company s net investment of $38.0 million in HT II as of December 31, 2013, HT II has the capacity to issue a total of $76.0 million of SBA guaranteed debentures, subject to SBA approval, of which $76.0 million was outstanding as of December 31, 2013. As of December 31, 2013, HT II has paid commitment fees and facility fees of approximately $1.5 million and $3.6 million, respectively. As of December 31, 2013, the Company held investments in HT II in 42 companies with a fair value of approximately $102.5 million, accounting for approximately 11.3% of the Company s total portfolio.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With the Company s net investment of $74.5 million in HT III as of December 31, 2013, HT III has the capacity to issue a total of $149.0 million of SBA guaranteed debentures, subject to SBA approval, of which $149.0 million was outstanding as of December 31, 2013. As of December 31, 2013, HT III has paid commitment fees and facility fees of approximately $1.5 million and $3.6 million, respectively. As of December 31, 2013, the Company held investments in HT III in 29 companies with a fair value of approximately $171.6 million, accounting for approximately 18.9% of the Company s total portfolio.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding $18.0 million and have average annual fully taxed net income not exceeding $6.0 million for the two most recent fiscal years. In addition, SBICs must devote 25.0% of its investment activity to smaller enterprises as defined by the SBA.

A smaller enterprise is one that has a tangible net worth not exceeding $6.0 million and has average annual fully taxed net income not exceeding $2.0 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through its wholly-owned subsidiaries HT II and HT III, the Company plans to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II and HT III are periodically examined and audited by the SBA s staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to the Company if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect the Company because HT II and III are the Company s wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC s leverage as of December 31, 2013 as a result of having sufficient capital as defined under the SBA regulations.

The rates of borrowings under various draws from the SBA beginning in April 2007 are set semiannually in March and September and range from 2.25% to 5.73%. Interest payments on SBA debentures are payable semiannually. There are no principal payments required on these issues prior to maturity and no prepayment penalties.

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Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of April 2007, the initial maturity of SBA debentures will occur in April 2017. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year in which the underlying commitment was closed. The annual fees related to HT III debentures that pooled on March 27, 2013, were 0.804%. The annual fees on other debentures have been set at 0.906%. The average amount of debentures outstanding for the year ended December 31, 2013 for HT II was approximately $76.0 million with an average interest rate of approximately 5.34%. The average amount of debentures outstanding for the year ended December 31, 2013 for HT III was approximately $149.0 million with an average interest rate of approximately 3.41%.

HT II and HT III hold approximately $174.1 million and $285.1 million in assets, respectively, and accounted for approximately 11.1% and 18.2% of the Company s total assets prior to consolidation at December 31, 2013.

As of December 31, 2013, the maximum statutory limit on the dollar amount of outstanding SBA guaranteed debentures issued by a single SBIC is $150.0 million, subject to periodic adjustments by the SBA, and a maximum amount of $225.0 million for funds under common control, subject to periodic adjustments by the SBA. In the aggregate, at December 31, 2013 there was $225.0 million principal amount of indebtedness outstanding incurred by our SBIC subsidiaries, the maximum statutory limit on the dollar amount of SBA guaranteed debentures under the SBIC program.

The Company reported the following SBA debentures outstanding on its Consolidated Statement of Assets and Liabilities as of December 31, 2013 and December 31, 2012:

			December 31,	
(in thousands) Issuance/Pooling Date	**Maturity Date**	**Interest Rate(1)**	**2013**	**2012**
SBA Debentures:				
March 26, 2008	March 1, 2018	6.38%	$ 34,800	$ 34,800
March 25, 2009	March 1, 2019	5.53%	18,400	18,400
September 23, 2009	September 1, 2019	4.64%	3,400	3,400
September 22, 2010	September 1, 2020	3.62%	6,500	6,500
September 22, 2010	September 1, 2020	3.50%	22,900	22,900
March 29, 2011	March 1, 2021	4.37%	28,750	28,750
September 21, 2011	September 1, 2021	3.16%	25,000	25,000
March 21, 2012	March 1, 2022	3.28%	25,000	11,250
March 21, 2012	March 1, 2022	3.05%	11,250	25,000
September 19, 2012	September 1, 2022	3.05%	24,250	24,250
March 27, 2013	March 1, 2023	3.16%	24,750	24,750
Total SBA Debentures			$ 225,000	$ 225,000

(1) Interest rate includes annual charge

2019 Notes

On March 6, 2012, the Company and U.S. Bank National Association (the Trustee) entered into an indenture (the Base Indenture). On April 17, 2012, the Company and the Trustee entered into the First Supplemental Indenture to the Base Indenture, dated April 17, 2012, relating to the Company s issuance, offer and sale of $43.0 million aggregate principal amount of 7.00% senior notes due 2019 (the April 2019 Notes). The sale of the April 2019 Notes generated net proceeds, before expenses, of approximately $41.7 million.

On September 24, 2012, the Company and the Trustee, entered into the Second Supplemental Indenture to the Base Indenture, dated as of September 24, 2012, relating to the Company s issuance, offer and sale of $75.0 million aggregate principal amount of 7.00% senior notes due 2019 (the September 2019 Notes). The sale of the September 2019 Notes generated net proceeds, before expenses, of approximately $72.75 million.

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2019 Notes payable is compromised of:

(in thousands)	December 31, 2013	December 31, 2012
April 2019 Notes	$ 84,490	$ 84,490
September 2019 Notes	85,874	85,874
Carrying Value of Debt	$ 170,364	$ 170,364

April 2019 Notes

The April 2019 Notes will mature on April 30, 2019 and may be redeemed in whole or in part at the Company s option at any time or from time to time on or after April 30, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The April 2019 Notes bear interest at a rate of 7.00% per year payable quarterly on January 30, April 30, July 30 and October 30 of each year, commencing on July 30, 2012, and trade on the New York Stock Exchange under the trading symbol HTGZ.

The April 2019 Notes are the Company s direct unsecured obligations and rank: (i) *pari passu* with our other outstanding and future senior unsecured indebtedness, including without limitation, the $75 million in aggregate principal amount of the Convertible Senior Notes; (ii) senior to any of the Company s future indebtedness that expressly provides it is subordinated to the April 2019 Notes; (iii) effectively subordinated to all the Company s existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grants security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under the Company s credit facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company s subsidiaries, including without limitation, the indebtedness of Hercules Technology II, L.P. and Hercules Technology III, L.P. and borrowings under the Company s revolving senior secured credit facility with Wells Fargo Capital Finance.

The Base Indenture, as supplemented by the First Supplemental Indenture, contains certain covenants including covenants requiring the Company to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18 (a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act and to provide financial information to the holders of the April 2019 Notes and the Trustee if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934. These covenants are subject to important limitations and exceptions that are described in the Indenture, as supplemented by the First Supplemental Indenture. The Indenture provides for customary events of default and further provides that the Trustee or the holders of 25% in aggregate principal amount of the outstanding April 2019 Notes in a series may declare such April 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

The April 2019 Notes were sold pursuant to an underwriting agreement dated April 11, 2012 among the Company and Stifel, Nicolaus & Company, Incorporated, as representative of the several underwriters named in the underwriting agreement. In July 2012, the Company re-opened our April 2019 Notes and issued an additional amount of approximately $41.5 million in aggregate principal amount of April 2019 Notes, which includes exercise of an over-allotment option, bringing the total amount of the April 2019 Notes issued to approximately $84.5 million in aggregate principal amount.

September 2019 Notes

The September 2019 Notes will mature on September 30, 2019 and may be redeemed in whole or in part at the Company s option at any time or from time to time on or after September 30, 2015, upon not less than 30

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days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The September 2019 Notes bear interest at a rate of 7.00% per year payable quarterly on March 30, June 30, September 30 and December 30 of each year, commencing on December 30, 2012, and trade on the New York Stock Exchange under the trading symbol HTGY.

The September 2019 Notes are the Company s direct unsecured obligations and rank: (i) *pari passu* with our other outstanding and future senior unsecured indebtedness, including without limitation, the $75 million in aggregate principal amount of the Convertible Senior Notes; (ii) senior to any of the Company s future indebtedness that expressly provides it is subordinated to the September 2019 Notes; (iii) effectively subordinated to all the Company s existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grants security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under the Company s credit facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including without limitation, the indebtedness of Hercules Technology II, L.P. and Hercules Technology III, L.P. and borrowings under the Company s revolving senior secured credit facility with Wells Fargo Capital Finance.

The Base Indenture, as supplemented by the Second Supplemental Indenture, contains certain covenants including covenants requiring the Company to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18 (a) (1)(A) as modified by Section 61(a)(1) of the 1940 Act to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act and to provide financial information to the holders of the September 2019 Notes and the Trustee if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934. These covenants are subject to important limitations and exceptions that are described in the Indenture, as supplemented by the Second Supplemental Indenture. The Indenture provides for customary events of default and further provides that the Trustee or the holders of 25% in aggregate principal amount of the outstanding September 2019 Notes in a series may declare such September 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

The September 2019 Notes were sold pursuant to an underwriting agreement dated September 19, 2012 among the Company and Stifel, Nicolaus & Company, Incorporated, as representative of the several underwriters named in the underwriting agreement. In October 2012, the underwriters exercised their over-allotment option for an additional $10.9 million of the September 2019 Notes, bringing the total amount of the September 2019 Notes issued to approximately $85.9 million in aggregate principal amount.

For the years ended December 31, 2013 and 2012, the components of interest expense and related fees and cash paid for interest expense and fees for the April 2019 and September 2019 Notes are as follows:

	Year Ended December 31,	
(in thousands)	**2013**	**2012**
Stated interest expense	$ 11,926	$ 5,139
Amortization of debt issuance cost	967	423
Total interest expense and fees	$ 12,893	$ 5,562
Cash paid for interest expense and fees	$ 11,926	$ 4,790

As of December 31, 2013, the Company is in compliance with the terms of the indenture, and respective supplemental indenture, governing the April 2019 Notes and September 2019 Notes.

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Asset-Backed Notes

On December 19, 2012, the Company completed a $230.7 million term debt securitization in connection with which an affiliate of the Company made an offer of $129.3 million in aggregate principal amount of fixed-rate asset-backed notes (the Asset-Backed Notes), which Asset-Backed Notes were rated A2(sf) by Moody s Investors Service, Inc. The Asset-Backed Notes were issued by Hercules Capital Funding Trust 2012-1 pursuant to a note purchase agreement, dated as of December 12, 2012, by and among the Company, Hercules Capital Funding 2012-1 LLC, as Trust Depositor (the Trust Depositor), Hercules Capital Funding Trust 2012- 1, as Issuer (the Issuer), and Guggenheim Securities, LLC, as Initial Purchaser, and are backed by a pool of senior loans made to certain of our portfolio companies and secured by certain assets of those portfolio companies and are to be serviced by the Company. Interest on the Asset-Backed Notes will be paid, to the extent of funds available, at a fixed rate of 3.32% per annum. The Asset-Backed Notes have a stated maturity of December 16, 2017.

As part of this transaction, the Company entered into a sale and contribution agreement with the Trust Depositor under which the Company has agreed to sell or have contributed to the Trust Depositor certain senior loans made to certain of our portfolio companies (the Loans). The Company has made customary representations, warranties and covenants in the sale and contribution agreement with respect to the Loans as of the date of their transfer to the Trust Depositor.

In connection with the issuance and sale of the Asset-Backed Notes, the Company has made customary representations, warranties and covenants in the note purchase agreement. The Asset-Backed Notes are secured obligations of the Issuer and are non-recourse to the Company. The Issuer also entered into an indenture governing the Asset-Backed Notes, which indenture includes customary representations, warranties and covenants. The Asset-Backed Notes were sold without being registered under the Securities Act of 1933, as amended (the Securities Act), to qualified institutional buyers in compliance with the exemption from registration provided by Rule 144A under the Securities Act and to institutional accredited investors (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) who in each case, are qualified purchasers for purposes of Section 3(c)(7) under the 1940 Act. In addition, the Trust Depositor entered into an amended and restated trust agreement, which includes customary representation, warranties and covenants.

The Loans are serviced by the Company pursuant to a sale and servicing agreement, which contains customary representations, warranties and covenants. The Company performs certain servicing and administrative functions with respect to the Loans. The Company is entitled to receive a monthly fee from the Issuer for servicing the Loans. This servicing fee is equal to the product of one-twelfth (or in the case of the first payment date, a fraction equal to the number of days from and including December 5, 2012 through and including January 15, 2013 over 360) of 2.00% and the aggregate outstanding principal balance of the Loans, excluding all defaulted Loans and all purchased Loans, as of the first day of the related collection period (the period from the 5th day of the immediately preceding calendar month through the 4th day of the calendar month in which a payment date occurs, and for the first payment date, the period from and including December 5, 2012, to the close of business on January 4, 2013).

The Company also serves as administrator to the Issuer under an administration agreement, which includes customary representations, warranties and covenants.

At December 31, 2013 and December 31, 2012, the Asset Backed Notes had an outstanding principal balance of $89.6 million and $129.3 million, respectively.

Under the terms of the Asset Backed Notes, the Company is required to maintain a reserve cash balance, funded through interest and principal collections from the underlying securitized debt portfolio, which may be used to pay monthly interest and principal payments on the Asset-Backed Notes. The Company has segregated these funds and classified them as Restricted Cash. There was approximately $6.3 million of Restricted Cash as of December 31, 2013 funded through interest collections. There was no cash segregated at December 31, 2012 due to immaterial monthly interest collections for the period ended December 31, 2012.

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Convertible Senior Notes

In April 2011, the Company issued $75.0 million in aggregate principal amount of its 6.00% convertible senior notes (the Convertible Senior Notes) due in 2016. As of December 31, 2013, the carrying value of the Convertible Senior Notes, comprised of the aggregate principal amount outstanding less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes, is approximately $72.5 million.

The Convertible Senior Notes mature on April 15, 2016 (the Maturity Date), unless previously converted or repurchased in accordance with their terms. The Convertible Senior Notes bear interest at a rate of 6.00% per year payable semiannually in arrears on April 15 and October 15 of each year, commencing on October 15, 2011. The Convertible Senior Notes are the Company s senior unsecured obligations and rank senior in right of payment to the Company s existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Senior Notes; equal in right of payment to the Company s existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company s secured indebtedness (including unsecured indebtedness that the Company later secures) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company s subsidiaries, financing vehicles or similar facilities.

Prior to the close of business on the business day immediately preceding October 15, 2015, holders may convert their Convertible Senior Notes only under certain circumstances set forth in the Indenture. On or after October 15, 2015 until the close of business on the scheduled trading day immediately preceding the Maturity Date, holders may convert their Convertible Senior Notes at any time. Upon conversion, the Company will pay or deliver, as the case may be, at its election, cash, shares of its common stock or a combination of cash and shares of its common stock. The conversion rate will initially be 84.0972 shares of common stock per $1,000 principal amount of Convertible Senior Notes (equivalent to an initial conversion price of approximately $11.89 per share of common stock). The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, if certain corporate events occur prior to the Maturity Date, the conversion rate will be increased for converting holders. As of December 31, 2013, the conversion rate is 85.9941 shares of common stock per $1,000 principal amount of Convertible Senior Notes.

The Company may not redeem the Convertible Senior Notes prior to maturity. No sinking fund is provided for the Convertible Senior Notes. In addition, if certain corporate events occur, holders of the Convertible Senior Notes may require the Company to repurchase for cash all or part of their Convertible Senior Notes at a repurchase price equal to 100% of the principal amount of the Convertible Senior Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

The Convertible Senior Notes are accounted for in accordance with ASC 470-20 (previously FASB Staff Position No. APB 14- 1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)). In accounting for the Convertible Senior Notes, the Company estimated at the time of issuance that the values of the debt and the embedded conversion feature of the Convertible Senior Notes were approximately 92.8% and 7.2%, respectively. The original issue discount of 7.2% attributable to the conversion feature of the Convertible Senior Notes was recorded in capital in excess of par value in the accompanying consolidated statement of assets and liabilities. As a result, the Company records interest expense comprised of both stated interest expense as well as accretion of the original issue discount. Additionally, the issuance costs associated with the Convertible Senior Notes were allocated to the debt and equity components in proportion to the allocation of the proceeds and accounted for as debt issuance costs and equity issuance costs, respectively. At the time of issuance, the debt issuance costs and equity issuance costs were approximately $2.9 million and $224,000, respectively. At the time of issuance and as of December 31, 2013, the equity component, net of issuance costs, as recorded in the capital in excess of par value in the balance sheet was approximately $5.2 million.

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As of December 31, 2013 and December 31, 2012, the components of the carrying value of the Convertible Senior Notes were as follows:

(in thousands)	December 31, 2013	December 31, 2012
Principal amount of debt	$ 75,000	$ 75,000
Original issue discount, net of accretion	(2,481)	(3,564)
Carrying value of debt	$ 72,519	$ 71,436

For the years ended December 31, 2013 and 2012, the components of interest expense, fees and cash paid for interest expense for the Convertible Senior Notes were as follows:

	Year Ended December 31,	
(in thousands)	2013	2012
Stated interest expense	$ 4,500	$ 4,500
Accretion of original issue discount	1,083	1,083
Amortization of debt issuance cost	577	577
Total interest expense	$ 6,160	$ 6,160
Cash paid for interest expense	$ 4,500	$ 4,500

The estimated effective interest rate of the debt component of the Convertible Senior Notes, equal to the stated interest of 6.0% plus the accretion of the original issue discount, was approximately 8.1% for both the years ended December 31, 2013 and December 31, 2012. As of December 31, 2013, the Company is in compliance with the terms of the indentures governing the Convertible Senior Notes.

Wells Facility

In August 2008, the Company entered into a $50.0 million two-year revolving senior secured credit facility with Wells Fargo Capital Finance (the Wells Facility). On June 20, 2011, the Company renewed the Wells Facility. Under this three-year senior secured facility, Wells Fargo Capital Finance has made commitments of $75.0 million. The facility contains an accordion feature, in which the Company can increase the credit line up to an aggregate of $300.0 million, funded by additional lenders and with the agreement of Wells Fargo Capital Finance and subject to other customary conditions. The Company expects to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Wells Facility.

On August 1, 2012, the Company entered into an amendment to the Wells Facility. The amendment reduces the interest rate floor by 75 basis points to 4.25% and extends the maturity date by one year to August 2015. Additionally, an amortization period of 12 months was added to pay down the principal balance as of the maturity date, and the unused line fee was reduced.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 4.25% and an advance rate of 50% against eligible loans. The Wells Facility is secured by loans in the borrowing base. The Wells Facility requires payment of a non-use fee on a scale of 0.0% to 0.50% of the average monthly outstanding balance. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.50%. For the year ended December 31, 2013, this non-use fee was approximately $380,000. On June 20, 2011 the Company paid an additional $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through the end of the term.

The Wells Facility includes various financial and operating covenants applicable to the Company and its subsidiaries, in addition to those applicable to Hercules Funding II, LLC. These covenants require the Company to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $362.0 million plus 90% of the cumulative amount of equity

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raised after June 30, 2012. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital that the Company subsequently raises. As of December 31, 2013, the minimum tangible net worth covenant has increased to $478.5 million as a result of the Company s follow-on public offerings. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. The Company was in compliance with all covenants at December 31, 2013.

At December 31, 2013, there were no borrowings outstanding on this facility.

Union Bank Facility

On February 10, 2010, the Company entered a $20.0 million one-year revolving senior secured credit facility with Union Bank (the Union Bank Facility). On November 2, 2011, the Company renewed and amended the Union Bank Facility and added a new lender under the Union Bank Facility. Union Bank and RBC Capital Markets (RBC) have made commitments of $30.0 million and $25.0 million, respectively. The Union Bank Facility contains an accordion feature, in which the Company can increase the credit line up to an aggregate of $150.0 million, funded by additional lenders and with the agreement of Union Bank and subject to other customary conditions. The Company expects to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Union Bank Facility.

On March 30, 2012, the Company entered into an amendment to the Union Bank Facility which permitted the Company to issue additional senior notes relating to the offer and sale of our 2019 Notes. On September 17, 2012, the Company entered into an amendment to the Union Bank Facility. Pursuant to the terms of the amendment, the Company is permitted to increase its unsecured indebtedness by an aggregate original principal amount not to exceed $200.0 million incurred after March 30, 2012 in one or more issuances, provided certain conditions are satisfied for each issuance.

On December 17, 2012, the Company further amended the Union Bank Facility to remove RBC from the Union Bank Facility. Following the removal of RBC, the Union Bank Facility consists solely of Union Bank s commitment of $30.0 million. In connection with the amendment, the maximum availability under the Union Bank Facility, subject to a borrowing base, was reduced from $55.0 million to $30.0 million. The Union Bank Facility contains an accordion feature, in which the Company could increase the credit line by up to $95.0 million in the aggregate, funded by commitments from additional lenders and with the agreement of Union Bank and subject to other customary conditions. There can be no assurances that additional lenders will join the Union Bank Facility.

Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. For the year ended December 31, 2013, this nonuse fee was approximately $152,000. The Union Bank Facility is collateralized by debt investments in our portfolio companies, and includes an advance rate equal to 50.0% of eligible loans placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity.

The Union Bank Facility requires various financial and operating covenants. These covenants require the Company to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the amount of net cash proceeds received from the sale of common stock after March 31, 2011. As of December 31, 2013, the minimum tangible net worth covenant has increased to $472.8 million as a result of the Company s follow-on public offerings. As amended, the Union Bank Facility will mature on May 1, 2015, with a borrowing termination date as of May 2, 2014 and a term out provision for the remaining 12 months. Union Bank Facility also provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. The Company was in compliance with all covenants at December 31, 2013.

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At December 31, 2013, there were no borrowings outstanding on this facility.

Citibank Credit Facility

The Company, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the Citibank Credit Facility) with Citigroup Global Markets Realty Corp. which expired under normal terms. During the first quarter of 2009, the Company paid off all principal and interest owed under the Citibank Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of loans and warrants collateralized under the Citibank Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal $3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Citibank Credit Facility is terminated until the Maximum Participation Limit has been reached.

During the year ended December 31, 2013, the Company reduced its realized gain by approximately $249,000 for Citigroup s participation in the gain on sale of equity securities which were obtained from exercising portfolio company warrants which were included in the collateral pool. The Company recorded an increase on participation liability and a decrease on unrealized appreciation by a net amount of approximately $57,000 as a result of appreciation of fair value on the pool of warrants collateralized under the warrant participation agreement. The value of their participation right on unrealized gains in the related equity investments was approximately $370,000 as of December 31, 2013 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, the Company has paid Citigroup approximately $1.6 million under the warrant participation agreement thereby reducing realized gains by this amount. The Company will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire. Warrants subject to the Citigroup participation agreement are set to expire between March 2014 and March 2018.

5. Income Taxes

The Company intends to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, will not be subject to federal income tax on the portion of taxable income and gains distributed to stockholders.

To qualify as a RIC, the Company is required to meet certain income and asset diversification tests in addition to distributing at least 90% of its investment company taxable income, as defined by the Code. Because federal income tax regulations differ from accounting principles generally accepted in the United States, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary in nature. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes. During the year ended December 31, 2013 and 2012, the Company reclassified for book purposes amounts arising from permanent book/tax differences primarily related to accelerated revenue recognition for income tax purposes, respectively, as follows:

	December 31,	
(in thousands)	**2013**	**2012**
Distributions in excess of investment income	$ 2,112	$ 2,920
Accumulated realized gains (losses)	6,840	2,958
Additional paid-in capital	(8,952)	(5,878)

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For income tax purposes, distributions paid to shareholders are reported as ordinary income, return of capital, long term capital gains or a combination thereof. The tax character of distributions paid for the years ended December 31, 2013 and 2012 was ordinary income in the amounts of $66.5 million and $48.0 million, respectively.

The aggregate gross unrealized appreciation of our investments over cost for federal income tax purposes was $48.8 million and $19.9 million as of December 31, 2013 and 2012, respectively. The aggregate gross unrealized depreciation of our investments under cost for federal income tax purposes was $44.5 million and $27.6 million as of December 31, 2013 and 2012, respectively. The net unrealized appreciation over cost for federal income tax purposes was $4.3 million as of December 31, 2013 and net unrealized depreciation over cost for federal income tax purposes was $7.8 million as of December 31, 2012. The aggregate cost of securities for federal income tax purposes was $906.2 million and $916.9 million as of December 31, 2013 and 2012, respectively.

At December 31, 2013 and 2012, the components of distributable earnings on a tax basis detailed below differ from the amounts reflected in the Company s Statement of Net Assets and Liabilities by temporary book/ tax differences primarily arising from the treatment of loan related yield enhancements.

	December 31,	
(in thousands)	**2013**	**2012**
Accumulated Capital Gains (Losses)	$ (6,417)	$ (35,940)
Other Temporary Differences	1,134	(3,726)
Undistributed Ordinary Income	3,764	1,552
Unrealized Appreciation (Depreciation)	(5,132)	(10,480)
Components of Distributable Earnings	$ (6,651)	$ (48,594)

The Company will classify interest and penalties, if any, related to unrecognized tax benefits as a component of provision for income taxes.

Based on an analysis of our tax position, there are no uncertain tax positions that met the recognition or measurement criteria. The Company is currently not undergoing any tax examinations. The Company does not anticipate any significant increase or decrease in unrecognized tax benefits for the next twelve months. The 2010-2012 federal tax years for the Company remain subject to examination by the IRS. The 2009-2012 state tax years for the Company remain subject to examination by the California Franchise Tax Board.

6. Shareholders Equity

On July 25, 2012, our Board of Directors approved an extension of the stock repurchase plan under the same terms and conditions that allowed the Company to repurchase up to $35.0 million of our common stock. The stock repurchase plan expired on February 26, 2013 and no shares were repurchased for the years ended December 31, 2013 and December 31, 2012.

On March 13, 2013, the Company raised approximately $95.8 million, before deducting offering expenses, in a public offering of 8,050,000 shares of its common stock.

On August 16, 2013, the Company entered into an At-The-Market (ATM) equity distribution agreement with JMP Securities LLC (JMP). The equity distribution agreement provides that the Company may offer and sell up to 8,000,000 shares of its common stock from time to time through JMP, as its sales agent. Sales of the Company s common stock, if any, may be made in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on the NYSE or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices. There were no sales under the ATM Program for the year ended December 31, 2013.

The Company has issued stock options for common stock subject to future issuance, of which 833,923 and 2,574,749 were outstanding at December 31, 2013 and December 31, 2012, respectively.

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7. Equity Incentive Plan

The Company and its stockholders have authorized and adopted the 2004 Equity Incentive Plan (the 2004 Plan) for purposes of attracting and retaining the services of its executive officers and key employees. Under the 2004 Plan, the Company is authorized to issue 7,000,000 shares of common stock. On June 1, 2011, stockholders approved an amended and restated plan and provided an increase of 1,000,000 shares, authorizing the Company to issue 8,000,000 shares of common stock under the 2004 Plan.

The Company and its stockholders have authorized and adopted the 2006 Non-Employee Director Plan (the 2006 Plan and, together with the 2004 Plan, the Plans) for purposes of attracting and retaining the services of its Board of Directors. Under the 2006 Plan, the Company is authorized to issue 1,000,000 shares of common stock. The Company filed an exemptive relief request with the Securities and Exchange Commission (SEC) to allow options to be issued under the 2006 Plan which was approved on October 10, 2007.

On June 21, 2007, the stockholders approved amendments to the 2004 Plan and the 2006 Plan allowing for the grant of restricted stock. The amended Plans limit the combined maximum amount of restricted stock that may be issued under both Plans to 10% of the outstanding shares of the Company s stock on the effective date of the Plans plus 10% of the number of shares of stock issued or delivered by the Company during the terms of the Plans. The amendments further specify that no one person shall be granted awards of restricted stock relating to more than 25% of the shares available for issuance under the 2004 Plan. Further, the amount of voting securities that would result from the exercise of all of the Company s outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 25% of its outstanding voting securities, except that if the amount of voting securities that would result from such exercise of all of the Company s outstanding warrants, options and rights issued to the Company s directors, officers and employees, together with any restricted stock issued pursuant to the Plans, would exceed 15% of the Company s outstanding voting securities, then the total amount of voting securities that would result from the exercise of all outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 20% of our outstanding voting securities.

A summary of the restricted stock activity under the Company s 2006 and 2004 Plans for each of the three periods ended December 31 2013, 2012, and 2011 is as follows:

	2006 Plan	2004 Plan
Outstanding at December 31, 2010	21,668	1,018,103
Granted	10,000	296,600
Cancelled		(123,502)
Outstanding at December 31, 2011	31,668	1,191,201
Granted	5,000	686,859
Cancelled		(59,019)
Outstanding at December 31, 2012	36,668	1,819,041
Granted		607,001
Cancelled		(30,264)
Outstanding at December 31, 2013	36,668	2,395,778

In 2013, 2012, and 2011, the Company granted approximately 607,001, 691,859 and 306,600 shares, respectively, of restricted stock pursuant to the Plans. All restricted stock grants under the 2004 Plan made prior to March 4, 2013 will continue to vest on a monthly basis following their one year anniversary over the succeeding 36 months. During 2012, the Compensation Committee adopted a policy that provided for awards with different vesting schedules for short and long-term awards. Under the 2004 Plan, restricted stock awarded subsequent to March 3, 2013 will vest subject to continued employment based on two vesting schedules: short-term awards vest one-half on the one year anniversary of the date of the grant and quarterly over the succeeding 12 months, and long-term awards vest one-fourth on the one year anniversary of the date of grant and quarterly over the succeeding 36 months. No restricted stock was granted pursuant to the 2004 Plan prior to 2009.

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The Company determined that the fair value of restricted stock granted under the 2006 and 2004 Plans during the years ended December 31, 2013, 2012, and 2011 was approximately $7.7 million, $7.5 million, and $3.4 million, respectively. During the years ended December 31, 2013, 2012, and 2011 the Company expensed approximately $5.6 million, $3.9 million, and $2.6 million of compensation expense related to restricted stock, respectively. As of December 31, 2013, there was approximately $10.0 million of total unrecognized compensation costs related to restricted stock. These costs are expected to be recognized over a weighted average period of 2.25 years.

The following table summarizes the activities for our unvested restricted stock for the years ended December 31, 2013, 2012, and 2011:

	Unvested Restricted Stock Units	
	Restricted Stock Units	Weighted Average Issuance Price
Unvested at December 31, 2010	778,664	$ 9.27
Granted	306,600	$ 11.14
Vested	(340,253)	$ 9.38
Forfeited	(123,502)	$ 9.63
Unvested at December 31, 2011	621,509	$ 10.06
Granted	691,859	$ 10.83
Vested	(354,560)	$ 9.88
Forfeited	(59,019)	$ 9.95
Unvested at December 31, 2012	899,789	$ 10.73
Granted	607,001	$ 12.72
Vested	(440,629)	$ 10.59
Forfeited	(30,264)	$ 11.24
Unvested at December 31, 2013	1,035,897	$ 11.94

The SEC, through an exemptive order granted on June 22, 2010, approved amendments to the Plans which allow participants to elect to have the Company withhold shares of the Company s common stock to pay for the exercise price and applicable taxes with respect to an option exercise (net issuance exercise). The exemptive order also permits the holders of restricted stock to elect to have the Company withhold shares of Hercules stock to pay the applicable taxes due on restricted stock at the time of vesting. Each individual can make, and does not preclude the participant from electing to make, a cash payment at the time of option exercise or to pay taxes on restricted stock.

The following table summarizes the common stock options activities under the Company s 2006 and 2004 Plans for each of the three periods ended December 31 2013, 2012, and 2011:

	Common Stock Options	Weighted Average Exercise Price
Shares Outstanding at December 31, 2010	4,729,849	$ 11.33
Granted	599,860	$ 10.59
Exercised	(178,101)	$ 4.93
Forfeited	(474,410)	$ 10.21
Expired	(463,594)	$ 13.28
Shares Outstanding at December 31, 2011	4,213,604	$ 11.40

Granted	189,000	$ 10.71
Exercised	(564,196)	$ 5.56
Forfeited	(57,229)	$ 9.69
Expired	(1,206,430)	$ 12.84
Shares Outstanding at December 31, 2012	2,574,749	$ 12.00
Granted	443,500	$ 14.51
Exercised	(2,003,988)	$ 12.38
Forfeited	(115,338)	$ 10.38
Expired	(65,000)	$ 13.30
Shares Outstanding at December 31, 2013	833,923	$ 12.53
Shares Expected to Vest at December 31, 2013	571,153	$ 12.53

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Options generally vest 33% one year after the date of grant and ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant. At December 31, 2013, options for approximately 263,000 shares were exercisable at a weighted average exercise price of approximately $10.13 per share with weighted average of remaining contractual term of 2.91 years.

The Company determined that the fair value of options granted under the 2006 and 2004 Plans during the years ended December 31, 2013, 2012, and 2011 was approximately $1.1 million, $326,000, and $1.3 million, respectively. During the years ended December 31, 2013, 2012, and 2011, approximately $422,000, $416,000, and $557,000 of share-based cost due to stock option grants was expensed, respectively. As of December 31, 2013, there was $1.1 million of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 2.47 years.

The fair value of options granted is based upon a Black Scholes option pricing model using the assumptions in the following table for each of the three periods ended December 31, 2013, 2012, and 2011 is as follows:

	2013	2012	2011
Expected Volatility	46.90%	46.39%	46.39%
Expected Dividends	10%	10%	10%
Expected term (in years)	4.5	4.5	4.5
Risk-free rate	0.56%-1.63%	0.49%-1.07%	0.68%-2.15%

The following table summarizes stock options outstanding and exercisable at December 31, 2013:

(Dollars in thousands, except exercise price)	Options outstanding				Options exercisable			
Range of exercise prices	Number of shares	Weighted average remaining contractual life	Aggregate intrinsic value	Weighted average exercise price	Number of shares	Weighted average remaining contractual life	Aggregate intrinsic value	Weighted average exercise price
$4.21-$9.25	71,638	3.73	$ 669,702	$ 7.05	53,883	3.34	$ 542,753	$ 6.33
$9.90-$14.86	643,785	5.20	2,450,744	$ 12.59	208,887	2.80	1,105,338	$ 11.11
$15.44-$16.13	118,500	6.84	111,000	$ 15.46				$
$4.21-$16.13	833,923	5.31	$ 3,231,446	$ 12.53	262,770	2.91	$ 1,648,091	$ 10.13

8. Earnings per Share

Shares used in the computation of the Company s basic and diluted earnings per share are as follows:

(in thousands, except per share data)	Year Ended December 31, 2013	2012	2011
Numerator			
Net increase in net assets resulting from operations	$ 99,446	$ 46,759	$ 46,936
Less: Dividends declared-common and restricted shares	(66,454)	(47,983)	(38,490)
Undistributed earnings	32,992	(1,224)	8,446
Undistributed earnings-common shares	32,992	(1,224)	8,446
Add: Dividend declared-common shares	65,123	46,967	37,826

Numerator for basic and diluted change in net assets per common share	$ 98,115	$ 45,743	$ 46,272
Denominator			
Basic weighted average common shares outstanding	58,838	49,068	42,988
Common shares issuable	1,454	88	311
Weighted average common shares outstanding assuming dilution	60,292	49,156	43,299
Change in net assets per common share			
Basic	$ 1.67	$ 0.93	$ 1.08
Diluted	$ 1.63	$ 0.93	$ 1.07

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For the purpose of calculating diluted earnings per share for year ended December 31, 2013, the dilutive effect of the Convertible Senior Notes under the treasury stock method is included in this calculation because the Company s share price was greater than the conversion price in effect ($11.63) for the Convertible Senior Notes for such period.

The calculation of change in net assets resulting from operations per common share assuming dilution, excludes all anti-dilutive shares. For the years ended December 31, 2013, 2012, and 2011, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company s common stock for the periods, was approximately 1,835,880, 2,574,749, and 2,583,707 shares, respectively.

At December 31, 2013, the Company was authorized to issue 100,000,000 shares of common stock with a par value of $0.001. Each share of common stock entitles the holder to one vote.

9. Financial Highlights

Following is a schedule of financial highlights for the three years ended December 31, 2013.

	Year Ended December 31,		
	2013	**2012**	**2011**
Per share data:			
Net asset value at beginning of period	$ 9.75	$ 9.83	$ 9.50
Net investment income(1)	1.24	0.98	0.92
Net realized gain (loss) on investments	0.25	0.06	0.06
Net unrealized appreciation (depreciation) on investments	0.20	(0.09)	0.11
Total from investment operations	1.69	0.95	1.09
Net increase/(decrease) in net assets from capital share transactions	0.10	(0.14)	0.07
Distributions	(1.13)	(0.98)	(0.90)
Stock-based compensation expense included in investment income(2)	0.10	0.09	0.07
Net asset value at end of period	$ 10.51	$ 9.75	$ 9.83
Ratios and supplemental data:			
Per share market value at end of period	$ 16.40	$ 11.13	$ 9.44
Total return(3)	58.49%	28.28%	-0.83%
Shares outstanding at end of period	61,837	52,925	43,853
Weighted average number of common shares outstanding	58,838	49,068	42,988
Net assets at end of period	$ 650,007	$ 515,968	$ 431,041
Ratio of operating expense to average net assets	11.06%	10.28%	9.61%
Ratio of net investment income before provision for income tax expense and investment gains and losses to average net assets	12.12%	10.01%	9.45%
Average debt outstanding	$ 580,053	$ 360,857	$ 238,873
Weighted average debt per common share	$ 9.86	$ 7.35	$ 5.56

(1) Net investment income per share is calculated as net investment income divided by the weighted average shares outstanding.
(2) Stock option expense is a non-cash expense that has no effect on net asset value. Pursuant to ASC 718, net investment loss includes the expense associated with the granting of stock options which is offset by a corresponding increase in paid-in capital.
(3) The total return for the period ended December 31, 2013, 2012 and 2011 equals the change in the ending market value over the beginning of the period price per share plus dividends paid per share during the period, divided by the beginning price assuming the dividend is reinvested on the date of the distribution.

10. Commitments and Contingencies

The Company s commitments and contingencies consist primarily of unused commitments to extend credit in the form of loans to the Company s portfolio companies. The balance of unfunded contractual commitments to extend credit at December 31, 2013 totaled approximately $151.0 million. Approximately $77.4 million of these unfunded origination activity commitments as of December 31, 2013 are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. Since a portion of these commitments may expire without being drawn, unfunded contractual commitments do not necessarily represent

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future cash requirements. In addition, the Company had approximately $38.0 million of non-binding term sheets outstanding at December 31, 2013. Non-binding outstanding term sheets are subject to completion of the Company s due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent the Company s future cash requirements.

Certain premises are leased under agreements which expire at various dates through March 2020. Total rent expense amounted to approximately $1.1 million, $1.2 million, and $1.1 million during the years ended December 31, 2013, 2012, and 2011, respectively. Future commitments under the credit facility and operating leases were as follows at December 31, 2013:

	Payments due by period (in thousands)				
Contractual Obligations(1)(2)	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**
Borrowings(3)(4)	$ 557,440	$	$ 89,557	$ 72,519	$ 395,364
Operating Lease Obligations(5)	7,640	1,484	2,965	1,774	1,417
Total	$ 565,080	$ 1,484	$ 92,522	$ 74,293	$ 396,781

(1) Excludes commitments to extend credit to our portfolio companies.
(2) The Company also has a warrant participation agreement with Citigroup. See Note 4 to the Company s consolidated financial statements.
(3) Includes $225.0 million in borrowings under the SBA debentures, $170.4 million of the 2019 Notes, $89.6 million in aggregate principal amount of the Asset-Backed Notes and $72.5 million of the Convertible Senior Notes.
(4) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding. The aggregate principal amount outstanding of the Convertible Senior Notes is $75.0 million less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was $2.5 million at December 31, 2013.
(5) Long-term facility leases.

The Company may, from time to time, be involved in litigation arising out of its operations in the normal course of business or otherwise. Furthermore, third parties may try to seek to impose liability on the Company in connection with the activities of its portfolio companies. While the outcome of any current legal proceedings cannot at this time be predicted with certainty, the Company does not expect any current matters will materially affect the Company s financial condition or results of operations; however, there can be no assurance whether any pending legal proceedings will have a material adverse effect on the Company s financial condition or results of operations in any future reporting period.

11. Indemnification

The Company and its executives are covered by Directors and Officers Insurance, with the directors and officers being indemnified by the Company to the maximum extent permitted by Maryland law subject to the restrictions in the 1940 Act.

12. Concentrations of Credit Risk

The Company s customers are primarily privately held companies and public companies which are active in the drug discovery and development, energy technology, internet consumer and business services, medical devices and equipment, software, drug delivery, information services, communications and networking, healthcare services, specialty pharmaceuticals, surgical devices, electronics and computer hardware, media/content/info, biotechnology tools, semiconductors, consumer and business products and diagnostic industry sectors. These sectors are characterized by high margins, high growth rates, consolidation and product and market extension opportunities. Value for companies in these sectors is often vested in intangible assets and intellectual property.

Industry and sector concentrations vary as new loans are recorded and loans pay off. Loan revenue, consisting of interest, fees, and recognition of gains on equity and equity-related interests, can fluctuate

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materially when a loan is paid off or a related warrant or equity interest is sold. Revenue recognition in any given year can be highly concentrated among several portfolio companies.

For the years ended December 31, 2013 and December 31, 2012, our ten largest portfolio companies represented approximately 29.3% and 35.2% of the total fair value of our investments in portfolio companies, respectively. At December 31, 2013 and December 31, 2012, we had one and eight investments, respectively, that represented 5% or more of our net assets. At December 31, 2013, we had six equity investments representing approximately 75.7% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of our equity investments. At December 31, 2012, we had six equity investments which represented approximately 70.9% of the total fair value of our equity investments, and each represented 5% or more of the total fair value of such investments.

13. Selected Quarterly Data (Unaudited)

The following tables set forth certain quarterly financial information for each of the last eight quarters ended December 31, 2013. This information was derived from the Company s unaudited consolidated financial statements. Results for any quarter are not necessarily indicative of results for the full year or for any further quarter.

	Quarter Ended			
(in thousands, except per share data)	**3/31/2013**	**6/30/2013**	**9/30/2013**	**12/31/2013**
Total investment income	$ 30,957	$ 34,525	$ 41,021	$ 33,210
Net investment income before investment gains and losses	15,032	17,610	21,560	18,864
Net increase (decrease) in net assets resulting from operations	16,689	20,879	36,981	24,897
Change in net assets per common share (basic)	0.30	0.34	0.61	0.40

	Quarter Ended			
	3/31/2012	**6/30/2012**	**9/30/2012**	**12/31/2012**
Total investment income	$ 22,367	$ 23,858	$ 23,901	$ 27,395
Net investment income before investment gains and losses	11,375	12,310	11,351	13,071
Net increase (decrease) in net assets resulting from operations	17,105	48	4,745	24,861
Change in net assets per common share (basic)	0.36		0.09	0.47

14. Subsequent Events

Dividend Declaration

On February 24, 2014 the Board of Directors declared a cash dividend of $0.31 per share to be paid on March 17, 2014 to shareholders of record as of March 10, 2014. This dividend would represent our thirty-fourth consecutive dividend declaration since our initial public offering, bringing the total cumulative dividend declared to date to $9.06 per share.

Portfolio Company Developments

As of December 31, 2013, we held warrants or equity positions in five companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings, including Everyday Health, Inc. and four companies which filed confidentially under the JOBS Act. In addition, subsequent to December 31, 2013 the following portfolio companies in which we held investments as of December 31, 2013 completed initial public offerings or were acquired:

1. In January 2014, Toshiba Corporation completed its acquisition of Hercules portfolio company OCZ Technology. The acquisition resulted in full repayment of the Hercules debt investment in OCZ Technology.

2.

In January 2014, Dicerna Pharmaceuticals, Inc. (NASDAQ: DRNA) completed its initial public offering of 6,900,000 shares of its common stock at $15.00 per share.

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3. In February 2014, Revance Therapeutics, Inc. (NASDAQ:RVNC) completed its initial public offering of 6,900,000 shares of its common stock at $16.00 per share. The company had initially filed confidentially in April 2013.

4. In February 2014, Concert Pharmaceuticals, Inc. (NASDAQ:CNCE) completed its initial public offering of 6,000,000 shares of its common stock at $14.00 per share. The company had initially filed confidentially in December 2013.

5. In February 2014, Uniqure B.V. (NASDAQ:QURE) completed its initial public offering of 5,400,000 shares of its common stock at $17.00 per share. The company had initially filed confidentially in November 2013.

6. In February 2014, Teva Pharmaceutical Industries Ltd. (NYSE:TEVA) completed its acquisition of Hercules portfolio company NuPathe Inc. (NASDAQ:PATH) at a price of $3.65 per share in cash and the right to receive contingent cash consideration payments of up to $3.15 per share, net to the seller in cash without interest.

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Schedule 12-14

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES

As of and for the year ended December 31, 2013

(in thousands)

Portfolio Company	Investment[(1)]	Amount of Interest Credited to Income[(2)]	As of December 31, 2012 Fair Value	Gross Additions[(3)]	Gross Reductions[(4)]	As of December 31, 2013 Fair Value
Affiliate Investments						
Gelesis, Inc.	Preferred Stock	$	$ 1,570	$	$ (1,104)	$ 466
	Preferred Warrants		95		(88)	7
Optiscan BioMedical, Corp.	Senior Debt	1,933	9,491		(9,491)	
	Preferred Stock		564	3,988		4,552
	Preferred Warrants		151	81		232
Stion Corporation	Senior Debt	462	7,547		(3,451)	4,096
	Preferred Warrants		167	1,461		1,628
Total Control and Affliate Investments		$ 2,395	$ 19,585	$ 5,530	$ (14,134)	$ 10,981

(1) Stock and warrants are generally non-income producing and restricted. The principal amount for debt is shown in the Consolidated Schedule of Investments as of December 31, 2013.

(2) Represents the total amount of interest or dividends credited to income for the year an investment was an affiliate or control investment.

(3) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and closing fees and the exchange of one or more existing securities for one or more new securities. Gross additions also include net increase in unrealized appreciation or net decreases in unrealized depreciation.

(4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments or sales and the exchange of one or more existing for one or more new securities. Gross reductions also include net increase in unrealized depreciation or net decreases in unrealized appreciation.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

(unaudited)

(dollars in thousands, except per share data)

	March 31, 2014	December 31, 2013
Assets		
Investments:		
Non-control/Non-affiliate investments (cost of $872,226 and $891,059, respectively)	$ 879,469	$ 899,314
Affiliate investments (cost of $15,402 and $15,238, respectively)	11,193	10,981
Total investments, at value (cost of $887,628 and $906,297, respectively)	890,662	910,295
Cash and cash equivalents	224,538	268,368
Restricted cash	4,784	6,271
Interest receivable	8,176	8,962
Other assets	31,239	27,819
Total assets	$ 1,159,399	$ 1,221,715
Liabilities		
Accounts payable and accrued liabilities	$ 8,962	$ 14,268
Long-term Liabilities (Convertible Senior Notes)	72,789	72,519
Asset-Backed Notes	63,782	89,557
2019 Notes	170,364	170,364
Long-term SBA Debentures	190,200	225,000
Total liabilities	$ 506,097	$ 571,708
Commitments and Contingencies (Note 10)		
Net assets consist of:		
Common stock, par value	62	62
Capital in excess of par value	656,869	656,594
Unrealized appreciation on investments	2,607	3,598
Accumulated realized losses on investments	(10,368)	(15,240)
Undistributed net investment income	4,132	4,993
Total net assets	$ 653,302	$ 650,007
Total liabilities and net assets	$ 1,159,399	$ 1,221,715
Shares of common stock outstanding ($0.001 par value, 100,000,000 authorized)	61,760	61,837
Net asset value per share	$ 10.58	$ 10.51

See notes to consolidated financial statements.

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The following table presents the assets and liabilities of our consolidated securitization trust for asset-backed notes (see Note 4), which is a variable interest entity (VIE). The assets of our securitization VIE can only be used to settle obligations of our consolidated securitization VIE, these liabilities are only the obligations of our consolidated securitization VIE, and the creditors (or beneficial interest holders) do not have recourse to our general credit. These assets and liabilities are included in the Consolidated Statements of Assets and Liabilities above.

(Dollars in thousands)	March 31, 2014	December 31, 2013
ASSETS		
Restricted Cash	$ 4,784	$ 6,271
Total investments, at value (cost of $137,301 and $166,513, respectively)	135,138	165,445
Total assets	$ 139,922	$ 171,716
LIABILITIES		
Asset-Backed Notes	$ 63,782	$ 89,557
Total liabilities	$ 63,782	$ 89,557

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except per share data)

	Three Months Ended March 31,	
	2014	**2013**
Investment income:		
Interest Income		
Non-Control/Non-Affiliate investments	$ 29,382	$ 28,319
Affiliate investments	1,464	610
Total interest income	30,846	28,929
Fees		
Non-Control/Non-Affiliate investments	4,913	2,028
Affiliate investments	11	
Total fees	4,924	2,028
Total investment income	35,770	30,957
Operating expenses:		
Interest	7,148	7,631
Loan fees	2,076	1,079
General and administrative	2,461	2,252
Employee Compensation:		
Compensation and benefits	4,221	3,798
Stock-based compensation	1,560	1,165
Total employee compensation	5,781	4,963
Total operating expenses	17,466	15,925
Net investment income	18,304	15,032
Net realized gain on investments		
Non-Control/Non-Affiliate investments	4,872	1,991
Total net realized gain on investments	4,872	1,991
Net change in unrealized appreciation (depreciation) on investments		
Non-Control/Non-Affiliate investments	(1,038)	(768)
Affiliate investments	47	434
Total net change in unrealized appreciation (depreciation) on investments	(991)	(334)
Total net realized and unrealized gain	3,881	1,657
Net increase in net assets resulting from operations	$ 22,185	$ 16,689

Net investment income before investment gains and losses per common share:		
Basic	$ 0.30	$ 0.27
Change in net assets per common share:		
Basic	$ 0.36	$ 0.30
Diluted	$ 0.35	$ 0.30
Weighted average shares outstanding		
Basic	60,870	53,682
Diluted	62,695	53,823
Dividends declared per common share:		
Basic	$ 0.31	$ 0.27

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(unaudited)

(dollars and shares in thousands)

	Common Stock							
	Shares	Par Value	Capital in excess of par value	Unrealized Appreciation (Depreciation) on Investments	Accumulated Realized Gains (Losses) on Investments	Undistributed Net Investment Income/ (Distributions in Excess of Investment Income)	Provision for Income Taxes on Investment Gains	Net Assets
Balance at December 31, 2012	52,925	$ 53	$ 564,508	$ (7,947)	$ (36,916)	$ (3,388)	$ (342)	$ 515,968
Net increase in net assets resulting from operations				(334)	1,991	15,032		16,689
Issuance of common stock	80		910					910
Issuance of common stock under restricted stock plan	531	1	(1)					
Issuance of common stock as stock dividend	40		488					488
Retired shares from net issuance	(72)		(1,808)					(1,808)
Public Offering	8,050	8	95,550					95,558
Dividends declared						(13,382)		(13,382)
Stock-based compensation			1,185					1,185
Balance at March 31, 2013	61,554	$ 62	$ 660,833	$ (8,281)	$ (34,925)	$ (1,739)	$ (342)	$ 615,608
Balance at December 31, 2013	61,837	$ 62	$ 656,594	$ 3,598	$ (15,240)	$ 5,335	$ (342)	$ 650,007
Net increase in net assets resulting from operations				(991)	4,872	18,304		22,185
Issuance of common stock	62		727					727
Retired shares from restricted stock vesting	(120)							
Issuance of common stock as stock dividend	29		440					440
Retired shares from net issuance	(48)		(2,472)					(2,472)
Dividends declared						(19,165)		(19,165)
Stock-based compensation			1,580					1,580
Balance at March 31, 2014	61,760	$ 62	$ 656,869	$ 2,607	$ (10,368)	$ 4,474	$ (342)	$ 653,302

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(dollars in thousands)

	For the Three Months Ended March 31, 2014	For the Three Months Ended March 31, 2013
Cash flows from operating activities:		
Net increase in net assets resulting from operations	$ 22,185	$ 16,689
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Purchase of investments	(113,887)	(139,095)
Principal payments received on investments	132,646	75,987
Proceeds from sale of investments	7,598	5,212
Net unrealized depreciation on investments	991	334
Net realized gain on investments	(4,872)	(1,991)
Accretion of paid-in-kind principal	(659)	(555)
Accretion of loan discounts	(3,378)	(1,455)
Accretion of loan discount on Convertible Senior Notes	271	271
Accretion of loan exit fees	1,705	(1,819)
Change in deferred loan origination revenue	(457)	313
Unearned fees related to unfunded commitments	(2,723)	(856)
Amortization of debt fees and issuance costs	1,913	938
Depreciation	54	68
Stock-based compensation and amortization of restricted stock grants	1,579	1,185
Change in operating assets and liabilities:		
Interest and fees receivable (payable)	786	(41)
Prepaid expenses and other assets	(2,557)	33
Accounts payable	(41)	(250)
Accrued liabilities	(5,307)	(2,682)
Net cash provided by (used in) operating activities	35,847	(47,714)
Cash flows from investing activities:		
Purchases of capital equipment	(4)	(24)
Reduction of (investment in) restricted cash	1,487	(810)
Other long-term assets		(30)
Net cash provided by (used in) investing activities	1,483	(864)
Cash flows from financing activities:		
Proceeds from issuance (repurchase of employee shares due to restricted stock vesting) of common stock, net	(1,873)	94,660
Dividends paid	(18,725)	(12,894)
Repayments of Asset-Backed Notes	(25,775)	
Repayments of credit facilities	(34,800)	(9,254)
Fees paid for credit facilities and debentures	13	
Net cash provided by (used in) financing activities	(81,160)	72,512
Net increase (decrease) in cash and cash equivalents	(43,830)	23,934
Cash and cash equivalents at beginning of period	268,368	182,994
Cash and cash equivalents at end of period	$ 224,538	$ 206,928

Supplemental non-cash investing and financing activities:				
Dividends Reinvested	$	440	$	488
Paid-in-Kind Principal	$	659	$	555

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2014

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Maturity Date	Interest Rate and Floor	Principal Amount	Cost[2]	Value[3]
Debt							
Biotechnology Tools							
1-5 Years Maturity							
Labcyte, Inc.[11][14][15]	Biotechnology Tools	Senior Secured	June 2016	Interest rate PRIME + 6.70% or Floor rate of 9.95%	$ 3,890	$ 3,976	$ 3,936
Subtotal: 1-5 Years Maturity						3,976	3,936
Subtotal: Biotechnology Tools (0.60%)*						3,976	3,936
Energy Technology							
Under 1 Year Maturity							
American Superconductor Corporation[3][11][14]	Energy Technology	Senior Secured	December 2014	Interest rate PRIME + 7.25% or Floor rate of 11.00%	$ 3,462	3,892	3,892
Enphase Energy, Inc.[11][14]	Energy Technology	Senior Secured	June 2014	Interest rate PRIME + 5.75% or Floor rate of 9.00%	$ 669	717	717
Scifiniti (pka Integrated Photovoltaics, Inc.)[15]	Energy Technology	Senior Secured	February 2015	Interest rate PRIME + 7.38% or Floor rate of 10.63%	$ 1,166	1,154	1,154
Stion Corporation[4][6][14]	Energy Technology	Senior Secured	February 2015	Interest rate PRIME + 8.75% or Floor rate of 12.00%	$ 4,182	4,169	4,169
TAS Energy, Inc.[14]	Energy Technology	Senior Secured	February 2015	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 12,803	12,811	12,811
	Energy Technology	Senior Secured	February 2015	Interest rate PRIME + 6.25% or Floor rate of 9.50%	$ 3,000	2,900	2,900
Total TAS Energy, Inc.					$ 15,803	15,711	15,711
Subtotal: Under 1 Year Maturity						25,644	25,644
1-5 Years Maturity							
Agrivida, Inc.[15]	Energy Technology	Senior Secured	December 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 6,000	5,940	5,902
American Superconductor[3][11][14]	Energy Technology	Senior Secured	November 2016	Interest rate PRIME + 7.25% or Floor rate of 11.00%	$ 10,000	9,894	9,894
Amyris, Inc.[10][14]	Energy Technology	Senior Secured	February 2017	Interest rate PRIME + 6.25% or Floor rate of 9.50%	$ 25,000	24,703	24,703
BioAmber, Inc.[5][10][14]	Energy Technology	Senior Secured	June 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 25,000	25,704	26,201
Enphase Energy, Inc.[11]	Energy Technology	Senior Secured	August 2016	Interest rate PRIME + 8.25% or Floor rate of 11.50%	$ 7,181	7,229	7,373
Fluidic, Inc.[14]	Energy Technology	Senior Secured	March 2016	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 5,000	4,961	5,009
Fulcrum Bioenergy, Inc.[11]	Energy Technology	Senior Secured	November 2016	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 9,733	9,713	9,545

Glori Energy, Inc.(11)(14)	Energy Technology	Senior Secured	June 2015	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 4,444	4,616	4,601
Polyera Corporation(14)(15)	Energy Technology	Senior Secured	June 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 5,289	$ 5,346	$ 5,273
TPI Composites, Inc.(14)	Energy Technology	Senior Secured	June 2016	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 5,000	4,905	4,905
	Energy Technology	Senior Secured	June 2016	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 15,000	15,008	15,149
Total TPI Composites, Inc.					$ 20,000	19,913	20,054
ULTURA Inc.(13)(14)	Energy Technology	Senior Secured	April 2017	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 18,210	18,032	17,556
Subtotal: 1-5 Years Maturity						136,051	136,111
Subtotal: Energy Technology (24.76%)*						161,695	161,755

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2014

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Maturity Date	Interest Rate and Floor	Principal Amount	Cost[2]	Value[3]
Communications & Networking							
1-5 Years Maturity							
OpenPeak, Inc.[11][14]	Communications & Networking	Senior Secured	April 2017	Interest rate PRIME + 8.75% or Floor rate of 12.00%	$ 10,500	10,367	10,367
Spring Mobile Solutions, Inc.[14]	Communications & Networking	Senior Secured	November 2016	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 20,000	19,837	20,237
Subtotal: 1-5 Years Maturity						30,204	30,604
Subtotal: Communications & Networking (4.68%)*						30,204	30,604
Consumer & Business Products							
1-5 Years Maturity							
Fluc, Inc.[9]	Consumer & Business Products	Convertible Senior Debt	March 2017	Interest rate FIXED 4.00%	$ 100	100	100
Subtotal: 1-5 Years Maturity						100	100
Subtotal: Consumer & Business Products (0.02%)*						100	100
Drug Delivery							
Under 1 Year Maturity							
Revance Therapeutics, Inc.[3][14]	Drug Delivery	Senior Secured	March 2015	Interest rate PRIME + 6.60% or Floor rate of 9.85%	$ 794	827	827
	Drug Delivery	Senior Secured	March 2015	Interest rate PRIME + 6.60% or Floor rate of 9.85%	$ 7,942	8,222	8,222
Total Revance Therapeutics, Inc.					$ 8,736	9,049	9,049
Subtotal: Under 1 Year Maturity						9,049	9,049
1-5 Years Maturity							
AcelRx Pharmaceuticals, Inc.[3][10][14][15]	Drug Delivery	Senior Secured	October 2017	Interest rate PRIME + 3.85% or Floor rate of 9.10%	$ 15,000	14,613	14,613
BIND Therapeutics, Inc.[3][14][15]	Drug Delivery	Senior Secured	September 2016	Interest rate PRIME + 7.00% or Floor rate of 10.25%	$ 4,500	4,425	4,560
Celsion Corporation[3][14]	Drug Delivery	Senior Secured	June 2017		$ 5,000	4,923	4,923

				Interest rate PRIME + 8.00% or Floor rate of 11.25%			
Dance Biopharm, Inc.[14][15]	Drug Delivery	Senior Secured	August 2017	Interest rate PRIME + 7.40% or Floor rate of 10.65%	$ 1,000	981	981
kaleo, Inc.[11][14]	Drug Delivery	Senior Secured	June 2016	Interest rate PRIME + 5.75% or Floor rate of 11.00%	$ 13,678	13,958	13,958
Neos Therapeutics, Inc.[14][15]	Drug Delivery	Senior Secured	October 2017	Interest rate FIXED + 9.00%	$ 10,000	9,828	9,828
Subtotal: 1-5 Years Maturity						48,728	48,863
Subtotal: Drug Delivery (8.86%)*						57,777	57,912
Drug Discovery & Development							
Under 1 Year Maturity							
Dicerna Pharmaceuticals, Inc.[3][15]	Drug Discovery & Development	Senior Secured	January 2015	Interest rate PRIME + 4.40% or Floor rate of 10.15%	$ 3,922	$ 3,901	$ 3,901
Subtotal: Under 1 Year Maturity						3,901	3,901
1-5 Years Maturity							
ADMA Biologics, Inc.[3][13][14]	Drug Discovery & Development	Senior Secured	June 2017	Interest rate PRIME + 3.00% or Floor rate of 8.75%, PIK Interest 1.95%	$ 10,003	9,824	9,824
Anacor Pharmaceuticals, Inc.[15]	Drug Discovery & Development	Senior Secured	July 2017	Interst rate PRIME + 6.40% or Floor rate of 11.65%	$ 30,000	29,171	30,071
Aveo Pharmaceuticals, Inc.[3][10][11][14][15]	Drug Discovery & Development	Senior Secured	September 2015	Interest rate PRIME + 7.15% or Floor rate of 11.90%	$ 16,872	16,872	17,040

See notes to consolidated financial statements.

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2014

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Maturity Date	Interest Rate and Floor	Principal Amount	Cost[2]	Value[3]
Cell Therapeutics, Inc.[11][14]	Drug Discovery & Development	Senior Secured	October 2016	Interest rate PRIME + 9.00% or Floor rate 12.25%	$ 15,000	14,946	14,946
Cempra, Inc.[3][11][14]	Drug Discovery & Development	Senior Secured	June 2017	Interest rate PRIME + 6.30% or Floor rate of 9.55%	$ 15,000	14,975	14,975
Cleveland BioLabs, Inc.[3][14][15]	Drug Discovery & Development	Senior Secured	January 2017	Interest rate PRIME + 6.20% or Floor rate of 10.45%	$ 6,000	5,954	6,055
Concert Pharmaceuticals, Inc.[3][4]	Drug Discovery & Development	Senior Secured	October 2015	Interest rate PRIME + 3.25% or Floor rate of 8.50%	$ 13,172	13,052	12,933
Insmed, Incorporated[11][14]	Drug Discovery & Development	Senior Secured	January 2016	Interest rate PRIME + 4.75% or Floor rate of 9.25%	$ 20,000	19,815	19,904
Merrimack Pharmaceuticals, Inc.[3][14]	Drug Discovery & Development	Senior Secured	November 2016	Interest rate PRIME + 5.30% or Floor rate of 10.55%	$ 40,000	40,446	40,204
Neuralstem, Inc.[14][15]	Drug Discovery & Development	Senior Secured	June 2016	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 7,295	7,239	7,385
uniQure B.V.[3][5][10][11][14]	Drug Discovery & Development	Senior Secured	October 2016	Interest rate PRIME + 8.60% or Floor rate of 11.85%	$ 10,000	9,731	9,806
Subtotal: 1-5 Years Maturity						182,025	183,143
Subtotal: Drug Discovery & Development (28.63%)*						185,926	187,044
Electronics & Computer Hardware							
1-5 Years Maturity							
Plures Technologies, Inc.[8][13]	Electronics & Computer Hardware	Senior Secured	October 2016	Interest rate PRIME + 8.75% or Floor rate of 12.00%, PIK Interest 4.00%	$ 571	483	307
Subtotal: 1-5 Years Maturity						483	307
Subtotal: Electronics & Computer Hardware (0.05%)						483	307
Healthcare Services, Other							
1-5 Years Maturity							
InstaMed Communications, LLC[14][15]	Healthcare	Senior Secured	December 2016	Interest rate PRIME + 7.25% or Floor rate of	$ 3,000	3,008	3,068

	Services, Other			10.50%			
MDEverywhere, Inc.	Healthcare Services, Other	Senior Secured	June 2016	Interest rate LIBOR + 9.50% or Floor rate of 10.75%	$ 1,875	$ 1,754	$ 1,792
Orion Healthcorp, Inc.[13]	Healthcare Services, Other	Senior Secured	June 2016	Interest rate LIBOR + 8.25% or Floor rate of 9.50%	$ 500	469	469
	Healthcare Services, Other	Senior Secured	June 2017	Interest rate LIBOR + 9.50% or Floor rate of 11.00%	$ 8,775	8,627	8,684
	Healthcare Services, Other	Senior Secured	June 2017	Interest rate LIBOR + 10.50% or Floor rate of 12.00%, PIK Interest 3.00%	$ 6,641	6,524	6,580
Total Orion Healthcorp, Inc.					$ 15,916	15,620	15,733
Subtotal: 1-5 Years Maturity						20,382	20,593
Subtotal: Healthcare Services, Other (3.15%)*						20,382	20,593
Information Services							
1-5 Years Maturity							
Eccentex Corporation[11][14]	Information Services	Senior Secured	May 2015	Interest rate PRIME + 7.00% or Floor rate of 10.25%	$ 548	553	244
InXpo, Inc.[14][15]	Information Services	Senior Secured	April 2016	Interest rate PRIME + 7.50% or Floor rate of 10.75%	$ 2,307	2,264	2,207
Womensforum.com[11][13]	Information Services	Senior Secured	October 2016	Interest rate LIBOR + 7.50% or Floor rate of 10.25%, PIK Interest 2.00%	$ 4,630	4,565	4,565

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	Information Services	Senior Secured	April 2015	Interest rate LIBOR + 6.50% or Floor rate of 9.00%	$ 1,250	1,231	1,231
	Information Services	Senior Secured	October 2016	Interest rate LIBOR + 6.50% or Floor rate of 9.25%	$ 6,600	6,506	6,506
Total Womensforum.com					$ 12,480	12,302	12,302
Subtotal: 1-5 Years Maturity						15,119	14,753
Subtotal: Information Services (2.26%)*						15,119	14,753
Internet Consumer & Business Services							
Under 1 Year Maturity							
Gazelle, Inc.[13]	Internet Consumer & Business Services	Senior Secured	October 2014	Interest rate PRIME + 6.50% or Floor rate of 9.75%	$ 1,021	$ 1,006	$ 1,006
Tectura Corporation[8][13]	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 10.00% or Floor rate of 13.00%	$ 563	563	180
	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 10.00% or Floor rate of 13.00%	$ 277	277	89
	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 10.00% or Floor rate of 13.00%	$ 6,468	6,467	2,067
	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 8.00% or Floor rate of 11.00%, PIK Interest 1.00%	$ 10,777	10,777	3,445
	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 10.00% or Floor rate of 13.00%	$ 5,000	5,000	1,599
Total Tectura Corporation					$ 23,085	23,084	7,380
Subtotal: Under 1 Year Maturity						24,090	8,386
1-5 Years Maturity							
Blurb, Inc.[15]	Internet Consumer & Business Services	Senior Secured	December 2015	Interest rate PRIME + 5.25% or Floor rate of 8.50%	$ 5,616	5,511	5,456
CashStar, Inc.[13][15]		Senior Secured	June 2016		$ 8,028	7,846	7,993

	Internet Consumer & Business Services			Interest rate PRIME + 6.25% or Floor rate 10.50%, PIK Interest 1.00%			
Education Dynamics[13][15]	Internet Consumer & Business Services	Senior Secured	March 2016	Interest rate LIBOR + 12.5% or Floor rate 12.50%, PIK Interest 1.50%	$ 23,779	23,386	23,909
Gazelle, Inc.[13][15]	Internet Consumer & Business Services	Senior Secured	April 2016	Interest rate PRIME + 7.00% or Floor rate of 10.25%, PIK Interest 2.50%	$ 12,443	12,375	12,375
Just Fabulous, Inc.[14]	Internet Consumer & Business Services	Senior Secured	February 2017	Interest rate PRIME + 8.25% or Floor rate of 11.50%	$ 5,000	4,879	5,029
NetPlenish[8][9][15]	Internet Consumer & Business Services	Senior Secured	April 2015	Interest rate FIXED 10.00%	$ 96	96	
	Internet Consumer & Business Services	Senior Secured	September 2015	Interest rate FIXED 10.00%	$ 382	374	
Total NetPlenish					$ 478	470	
Reply! Inc.[11][13][14]	Internet Consumer & Business Services	Senior Secured	September 2015	Interest rate PRIME + 7.25% or Floor rate of 11.00%, PIK Interest 2.00%	$ 1,944	1,987	1,989
	Internet Consumer & Business Services	Senior Secured	September 2015	Interest rate PRIME + 6.88% or Floor rate of 10.13%, PIK Interest 2.00%	$ 8,821	8,840	8,884

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	Internet Consumer & Business Services	Senior Secured	February 2016	Interest rate PRIME + 7.25% or Floor rate of 10.50%, PIK Interest 2.00%	$ 3,046	$ 2,828	$ 2,887
Total Reply! Inc.					$ 13,811	13,655	13,760
Vaultlogix[13][14][15]	Internet Consumer & Business Services	Senior Secured	September 2016	Interest rate LIBOR + 8.50% or Floor rate of 10.00%, PIK Interest 2.50%	$ 7,999	7,961	7,961
	Internet Consumer & Business Services	Senior Secured	September 2015	Interest rate LIBOR + 7.00% or Floor rate of 8.50%	$ 7,318	7,386	7,386
Total Vaultlogix					$ 15,317	15,347	15,347
WaveMarket, Inc.[11][14]	Internet Consumer & Business Services	Senior Secured	March 2017	Interest rate PRIME + 6.50% or Floor rate of 9.75%	$ 402	402	402
	Internet Consumer & Business Services	Senior Secured	September 2016	Interest rate PRIME + 5.75% or Floor rate of 9.50%	$ 10,000	9,961	9,747
Total WaveMarket, Inc.					$ 10,402	10,363	10,149
Subtotal: 1-5 Years Maturity						93,832	94,018
Subtotal: Internet Consumer & Business Services (15.67%)*						117,922	102,404
Media/Content/Info							
Under 1 Year Maturity							
Zoom Media and Marketing[13]	Media/Content/Info	Senior Secured	December 2014	Interest rate PRIME + 5.25% or Floor rate of 8.50%	$ 4,000	3,896	3,807
Subtotal: Under 1 Year Maturity						3,896	3,807
1-5 Years Maturity							
Rhapsody International Inc.[15]	Media/Content/Info	Senior Secured	April 2018	Interest rate PRIME + 5.25% or Floor rate of 9.00%, PIK Interest 1.50%	$ 20,000	19,383	19,383
Zoom Media and Marketing[13]	Media/Content/Info	Senior Secured	December 2015	Interest rate PRIME + 7.25% or Floor rate of 10.50%, PIK Interest 3.75%	$ 3,866	3,736	3,729
Subtotal: 1-5 Years Maturity						23,119	23,112

Subtotal: Media/Content/Info (4.12%)*						27,015	26,919
Medical Devices & Equipment							
Under 1 Year Maturity							
Oraya Therapeutics, Inc.(9)(11)(14)	Medical Devices & Equipment	Senior Secured	December 2014	Interest rate FIXED 7.00%	$ 500	500	164
Subtotal: Under 1 Year Maturity						500	164
1-5 Years Maturity							
Baxano Surgical, Inc.(3)(14)	Medical Devices & Equipment	Senior Secured	March 2017	Interest rate PRIME + 7.75% or Floor rate of 12.5%	$ 7,500	7,284	7,225
Home Dialysis Plus(14)	Medical Devices & Equipment	Senior Secured	April 2017	Interest rate PRIME + 6.35% or Floor rate of 9.60%	$ 10,000	9,804	9,640
InspireMD, Inc.(3)(5)(10)(14)	Medical Devices & Equipment	Senior Secured	February 2017	Interest rate PRIME + 5.00% or Floor rate of 10.50%	$ 10,000	9,791	9,791
Medrobotics Corporation(14)(15)	Medical Devices & Equipment	Senior Secured	March 2016	Interest rate PRIME + 7.85% or Floor rate of 11.10%	$ 4,109	$ 4,082	$ 4,049
NetBio, Inc.	Medical Devices & Equipment	Senior Secured	August 2017	Interest rate PRIME + 5.00% or Floor rate of 11.00%	$ 5,000	4,790	4,743
NinePoint Medical, Inc.(14)(15)	Medical Devices & Equipment	Senior Secured	January 2016	Interest rate PRIME + 5.85% or Floor rate of 9.10%	$ 5,291	5,301	5,236
Oraya Therapeutics, Inc.(9)(11)(14)	Medical Devices & Equipment	Senior Secured	September 2015	Interest rate PRIME + 5.50% or Floor rate of 10.25%, PIK Interest 1.00%	$ 6,132	6,069	4,380

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Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
SonaCare Medical, LLC (pka US HIFUM LLC)(11)(14)	Medical Devices & Equipment	Senior Secured	April 2016	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 5,167	5,307	5,390
United Orthopedic Group, Inc.(14)	Medical Devices & Equipment	Senior Secured	July 2016	Interest rate PRIME + 8.60% or Floor rate of 11.85%	$ 25,000	24,898	24,898
ViewRay, Inc.(13)(15)	Medical Devices & Equipment	Senior Secured	June 2017	Interest rate PRIME + 7.00% or Floor rate of 10.25%, PIK Interest 1.50%	$ 15,047	14,585	14,585
Subtotal: 1-5 Years Maturity						91,911	89,937
Subtotal: Medical Devices & Equipment (13.79%)*						92,411	90,101
Semiconductors							
Under 1 Year Maturity							
Achronix Semiconductor	Semiconductors	Senior Secured	January 2015	Interest rate PRIME + 10.60% or Floor rate of 13.85%	$ 809	$ 804	$ 804
Subtotal: Under 1 Year Maturity						804	804
1-5 Years Maturity							
Avnera Corporation(14)	Semiconductors	Senior Secured	April 2017	Interest rate PRIME + 5.75% or Floor rate of 9.00%	$ 5,000	4,924	4,924
SiTime Corporation(14)(15)	Semiconductors	Senior Secured	September 2016	Interest rate PRIME + 6.50% or Floor rate of 9.75%	$ 3,500	3,504	3,526
Subtotal: 1-5 Years Maturity						8,428	8,450
Subtotal: Semiconductors (1.42%)						9,232	9,254
Software							
Under 1 Year Maturity							
Clickfox, Inc.(15)	Software	Senior Secured	September 2014	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 2,000	1,987	1,973
StartApp, Inc.(14)	Software	Senior Secured	December 2014	Interest rate PRIME + 2.75% or Floor rate of 6.00%	$ 200	193	193

Touchcommerce, Inc.[15]	Software	Senior Secured	December 2014	Interest rate PRIME + 2.25% or Floor rate of 6.50%	$ 3,511	3,481	3,356
Subtotal: Under 1 Year Maturity						5,661	5,522
1-5 Years Maturity							
Clickfox, Inc.[15]	Software	Senior Secured	November 2015	Interest rate PRIME + 8.25% or Floor rate of 11.50%	$ 5,152	$ 4,911	$ 4,911
Hillcrest Laboratories, Inc.[15]	Software	Senior Secured	July 2015	Interest rate PRIME + 7.50% or Floor rate of 10.75%	$ 2,270	2,249	2,252
Knowledge Adventure, Inc.[14][15]	Software	Senior Secured	March 2018	Interest rate PRIME + 8.25% or Floor rate of 11.50%	$ 11,750	11,598	11,598
Mobile Posse, Inc.[14][15]	Software	Senior Secured	December 2016	Interest rate PRIME + 7.50% or Floor rate of 10.75%	$ 3,896	3,804	3,883
Neos Geosolutions, Inc.[14][15]	Software	Senior Secured	May 2016	Interest rate PRIME + 5.75% or Floor rate of 10.50%	$ 3,427	3,488	3,427
Sonian, Inc.[14][15]	Software	Senior Secured	July 2017	Interest rate PRIME + 7.00% or Floor rate of 10.25%	$ 5,500	5,362	5,362
StartApp, Inc.	Software	Senior Secured	March 2017	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 3,500	3,521	3,554
Touchcommerce, Inc.[15]	Software	Senior Secured	June 2017	Interest rate PRIME + 6.00% or Floor rate of 10.25%	$ 5,000	4,690	4,840
Subtotal: 1-5 Years Maturity						39,623	39,827
Subtotal: Software (6.94%)*						45,284	45,349

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Portfolio Company	Sub-Industry	Type of Investment[1]	Maturity Date	Interest Rate and Floor	Principal Amount	Cost[2]	Value[3]
Specialty Pharmaceuticals							
1-5 Years Maturity							
Cranford Pharmaceuticals, LLC[13][14][15]	Specialty Pharmaceuticals	Senior Secured	February 2017	Interest rate LIBOR + 9.55% or Floor rate of 10.80%, PIK Interest 1.35%	$ 18,017	17,711	17,711
	Specialty Pharmaceuticals	Senior Secured	August 2015	Interest rate LIBOR + 8.25% or Floor rate of 9.50%	$ 2,500	2,446	2,446
Total Cranford Pharmaceuticals, LLC					$ 20,517	20,157	20,157
Rockwell Medical, Inc.[14][15]	Specialty Pharmaceuticals	Senior Secured	March 2017	Interest rate PRIME + 9.25% or Floor rate of 12.50%	$ 20,000	20,183	20,060
Subtotal: 1-5 Years Maturity						40,340	40,217
Subtotal: Specialty Pharmaceuticals (6.16%)*						40,340	40,217
Surgical Devices							
1-5 Years Maturity							
Transmedics, Inc.[11][14]	Surgical Devices	Senior Secured	November 2015	Interest rate FIXED 12.95%	$ 7,250	7,111	7,111
Subtotal: 1-5 Years Maturity						7,111	7,111
Subtotal: Surgical Devices (1.09%)*						7,111	7,111
Total Debt (122.20%)*						814,977	798,359

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Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Equity						
Biotechnology Tools						
NuGEN Technologies, Inc.[15]	Biotechnology Tools	Equity	Preferred Series C	189,394	$ 500	$ 476
Subtotal: Biotechnology Tools (0.07%)*					500	476
Energy Technology						
SCIEnergy, Inc.	Energy Technology	Equity	Preferred Series 1	385,000	761	29
Subtotal: Energy Technology (0.00%)*					761	29
Communications & Networking						
GlowPoint, Inc.[3]	Communications & Networking	Equity	Common Stock	114,192	102	192
Peerless Network, Inc.	Communications & Networking	Equity	Preferred Series A	1,000,000	1,000	3,201
Stoke, Inc.[15]	Communications & Networking	Equity	Preferred Series E	152,905	500	215
Subtotal: Communications & Networking (0.55%)*					1,602	3,608
Consumer & Business Products						
Caivis Acquisition Corporation[15]	Consumer & Business Products	Equity	Common Stock	295,861	819	597
IPA Holdings, LLC	Consumer & Business Products	Equity	LLC Interest	500,000	500	830
Market Force Information, Inc.	Consumer & Business Products	Equity	Preferred Series B	187,970	500	500
Subtotal: Consumer & Business Products (0.30%)*					1,819	1,927
Diagnostic						
Singulex, Inc.	Diagnostic	Equity	Common Stock	937,998	750	750
Subtotal: Diagnostic (0.11%)*					750	750

Drug Delivery						
AcelRx Pharmaceuticals, Inc.(3)(10)(15)	Drug Delivery	Equity	Common Stock	54,240	108	642
Merrion Pharmceuticals, Plc(3)(5)(10)	Drug Delivery	Equity	Common Stock	20,000	9	
Neos Therapeutics, Inc.(15)	Drug Delivery	Equity	Preferred Series C	300,000	1,500	1,505
Transcept Pharmaceuticals, Inc.(3)	Drug Delivery	Equity	Common Stock	41,570	500	129
Subtotal: Drug Delivery (0.35%)*					2,117	2,276
Drug Discovery & Development						
Acceleron Pharma, Inc.(3)(15)	Drug Discovery & Development	Equity	Common Stock	262,786	1,505	9,030
Aveo Pharmaceuticals, Inc.(3)(10)(15)	Drug Discovery & Development	Equity	Common Stock	167,864	841	251
Dicerna Pharmaceuticals, Inc.(3)(15)	Drug Discovery & Development	Equity	Common Stock	142,858	1,000	4,036
Inotek Pharmaceuticals Corporation	Drug Discovery & Development	Equity	Common Stock	15,334	1,500	
Merrimack Pharmaceuticals, Inc.(3)	Drug Discovery & Development	Equity	Common Stock	848,591	3,213	4,122
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Equity	Common Stock	2,882	5	
	Drug Discovery & Development	Equity	Preferred Series A	167,468	1,126	
Total Paratek Pharmaceuticals, Inc.				170,350	1,131	
Subtotal: Drug Discovery & Development (2.67%)*					9,190	17,439

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Information Services						
Good Technologies, Inc. (pka Visto Corporation)[15]	Information Services	Equity	Common Stock	500,000	604	
Subtotal: Information Services (0.00%)*					604	
Internet Consumer & Business Services						
Blurb, Inc.[15]	Internet Consumer & Business Services	Equity	Preferred Series B	220,653	174	365
Philotic, Inc.	Internet Consumer & Business Services	Equity	Common Stock	8,121	93	
Progress Financial	Internet Consumer & Business Services	Equity	Preferred Series G	218,351	250	267
Trulia, Inc.[3]	Internet Consumer & Business Services	Equity	Common Stock	29,340	141	951
Subtotal: Internet Consumer & Business Services (0.25%)*					658	1,583
Media/Content/Info						
Everyday Health, Inc. (pka Waterfront Media, Inc.)[3]	Media/Content/Info	Equity	Common Stock	97,060	1,000	1,358
Subtotal: Media/Content/Info (0.21%)*					1,000	1,358
Medical Devices & Equipment						
Gelesis, Inc.[6][15]	Medical Devices & Equipment	Equity	LLC Interest	2,024,092	925	492
Medrobotics Corporation[15]	Medical Devices & Equipment	Equity	Preferred Series E	136,798	250	288
Novasys Medical, Inc.	Medical Devices & Equipment	Equity	Preferred Series D-1	4,118,444	1,000	
Optiscan Biomedical, Corp.[6][15]	Medical Devices & Equipment	Equity	Preferred Series B	6,185,567	3,000	440
	Medical Devices & Equipment	Equity	Preferred Series C	1,927,309	655	145
	Medical Devices & Equipment	Equity	Preferred Series D	41,352,489	3,945	4,211
Total Optiscan Biomedical, Corp.				49,465,365	7,600	4,796

Subtotal: Medical Devices & Equipment (0.85%)*					9,775	5,576
Software						
Atrenta, Inc.	Software	Equity	Preferred Series C	1,196,845	$ 986	$ 1,953
	Software	Equity	Preferred Series D	635,513	508	1,151
Total Atrenta, Inc.				1,832,358	1,494	3,104
Box, Inc.(15)	Software	Equity	Preferred Series B	271,070	251	4,955
	Software	Equity	Preferred Series C	589,844	872	10,782
	Software	Equity	Preferred Series D	158,133	500	2,891
	Software	Equity	Preferred Series D-1	186,766	1,694	3,414
	Software	Equity	Preferred Series D-2	220,751	2,001	4,035
	Software	Equity	Preferred Series E	38,183	500	698
Total Box, Inc.				1,464,747	5,818	26,775
CapLinked, Inc.	Software	Equity	Preferred Series A-3	53,614	51	88
ForeScout Technologies, Inc.	Software	Equity	Preferred Series D	319,099	398	940
HighRoads, Inc.	Software	Equity	Preferred Series B	190,170	307	300
Subtotal: Software (4.78%)*					8,068	31,207

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Specialty Pharmaceuticals						
QuatRx Pharmaceuticals Company	Specialty Pharmaceuticals	Equity	Preferred Series E	241,829	750	
	Specialty Pharmaceuticals	Equity	Preferred Series E-1	26,955		
	Specialty Pharmaceuticals	Equity	Preferred Series G	4,667,636		
Total QuatRx Pharmaceuticals Company				4,936,420	750	
Subtotal: Specialty Pharmaceuticals (0.00%)*					750	
Surgical Devices						
Gynesonics, Inc.[15]	Surgical Devices	Equity	Preferred Series B	219,298	250	78
	Surgical Devices	Equity	Preferred Series C	656,538	282	129
	Surgical Devices	Equity	Preferred Series D	1,621,553	580	804
Total Gynesonics, Inc.				2,497,389	1,112	1,011
Transmedics, Inc.	Surgical Devices	Equity	Preferred Series B	88,961	1,100	315
	Surgical Devices	Equity	Preferred Series C	119,999	300	211
	Surgical Devices	Equity	Preferred Series D	260,000	650	923
Total Transmedics, Inc				468,960	2,050	1,449
Subtotal: Surgical Devices (0.38%)*					3,162	2,460
Total Equity (10.52%)*					40,756	68,689
Warrant						
Biotechnology Tools						
Labcyte, Inc.[15]	Biotechnology Tools	Warrant	Preferred Series C	1,127,624	323	129
Subtotal: Biotechnology Tools (0.02%)*					323	129

Energy Technology						
Agrivida, Inc.(15)	Energy Technology	Warrant	Preferred Series C	77,447	$ 120	$ 285
Alphabet Energy, Inc.(15)	Energy Technology	Warrant	Preferred Series A	86,329	82	139
American Superconductor Corporation(3)	Energy Technology	Warrant	Common Stock	512,820	391	152
Brightsource Energy, Inc.(15)	Energy Technology	Warrant	Preferred Series 1	175,000	779	135
Calera, Inc.(15)	Energy Technology	Warrant	Preferred Series C	44,529	513	
EcoMotors, Inc.(15)	Energy Technology	Warrant	Preferred Series B	437,500	308	498
Fluidic, Inc.	Energy Technology	Warrant	Preferred Series C	59,665	102	79
Fulcrum Bioenergy, Inc.	Energy Technology	Warrant	Preferred Series C-1	280,897	274	185
Glori Energy, Inc.(12)	Energy Technology	Warrant	Preferred Series C	145,932	165	54
GreatPoint Energy, Inc.(15)	Energy Technology	Warrant	Preferred Series D-1	393,212	548	
Polyera Corporation(15)	Energy Technology	Warrant	Preferred Series C	161,575	69	48
Propel Fuels(15)	Energy Technology	Warrant	Preferred Series C	3,200,000	211	141
SCIEnergy, Inc.	Energy Technology	Warrant	Common Stock	530,811	181	
	Energy Technology	Warrant	Preferred Series 1	145,811	50	
Total SCI Energy, Inc.				676,622	231	
Scifiniti (pka Integrated Photovoltaics, Inc.)(15)	Energy Technology	Warrant	Preferred Series B	390,000	82	83
Solexel, Inc.(15)	Energy Technology	Warrant	Preferred Series C	1,171,625	1,162	553
Stion Corporation(6)	Energy Technology	Warrant	Preferred Series Seed	2,154	1,378	1,495
TAS Energy, Inc.	Energy Technology	Warrant	Preferred Series F	428,571	299	419
TPI Composites, Inc.	Energy Technology	Warrant	Preferred Series B	160	273	425
Trilliant, Inc.(15)	Energy Technology	Warrant	Preferred Series A	320,000	162	7
Subtotal: Energy Technology (0.71%)*					7,149	4,698

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2014

(unaudited)

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Communications & Networking						
Intelepeer, Inc.[15]	Communications & Networking	Warrant	Preferred Series C	117,958	101	94
OpenPeak, Inc.	Communications & Networking	Warrant	Common Stock	108,982	149	174
PeerApp, Inc.	Communications & Networking	Warrant	Preferred Series B	298,779	61	46
Peerless Network, Inc.	Communications & Networking	Warrant	Preferred Series A	135,000	95	330
Ping Identity Corporation	Communications & Networking	Warrant	Preferred Series B	1,136,277	52	109
Spring Mobile Solutions, Inc.	Communications & Networking	Warrant	Preferred Series D	2,834,375	418	559
Stoke, Inc.[15]	Communications & Networking	Warrant	Preferred Series C	158,536	53	1
	Communications & Networking	Warrant	Preferred Series D	118,181	65	1
Total Stoke, Inc.				276,717	118	2
Subtotal: Communications & Networking (0.20%)*					994	1,314
Consumer & Business Products						
Intelligent Beauty, Inc.[15]	Consumer & Business Products	Warrant	Preferred Series B	190,234	230	708
IPA Holdings, LLC	Consumer & Business Products	Warrant	Common Stock	650,000	275	517
Market Force Information, Inc.	Consumer & Business Products	Warrant	Preferred Series A	99,286	24	30
Subtotal: Consumer & Business Products (0.08%)*					529	1,255
Diagnostic						

Navidea Biopharmaceuticals, Inc. (pka Neoprobe)(3)(15)	Diagnostic	Warrant	Common Stock	333,333	244	108
Subtotal: Diagnostic (0.02%)*					244	108
Drug Delivery						
AcelRx Pharmaceuticals, Inc.(3)(10)(15)	Drug Delivery	Warrant	Common Stock	176,730	786	983
Alexza Pharmaceuticals, Inc.(3)	Drug Delivery	Warrant	Common Stock	37,639	645	
BIND Therapeutics, Inc.(3)(15)	Drug Delivery	Warrant	Common Stock	71,359	366	141
Celsion Corporation(3)	Drug Delivery	Warrant	Common Stock	97,493	227	210
Dance Biopharm, Inc.(15)	Drug Delivery	Warrant	Preferred Series A	97,701	74	159
kaleo, Inc.	Drug Delivery	Warrant	Preferred Series B	82,500	594	1,062
Neos Therapeutics, Inc.(15)	Drug Delivery	Warrant	Preferred Series C	60,000	113	113
Revance Therapeutics, Inc.(3)	Drug Delivery	Warrant	Common Stock	53,511	557	477
Transcept Pharmaceuticals, Inc.(3)	Drug Delivery	Warrant	Common Stock	61,452	87	2
Subtotal: Drug Delivery (0.48%)*					3,449	3,147

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Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Drug Discovery & Development						
Acceleron Pharma, Inc.[3][15]	Drug Discovery & Development	Warrant	Common Stock	11,611	$ 39	$ 249
ADMA Biologics, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	66,550	218	170
Anthera Pharmaceuticals, Inc.[3][15]	Drug Discovery & Development	Warrant	Common Stock	40,178	984	4
Cempra, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	138,797	458	604
Chroma Therapeutics, Ltd.[5][10]	Drug Discovery & Development	Warrant	Preferred Series D	325,261	490	500
Cleveland BioLabs, Inc.[3][15]	Drug Discovery & Development	Warrant	Common Stock	156,250	105	31
Concert Pharmaceuticals, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	70,796	367	202
Coronado Biosciences, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	73,009	142	44
Dicerna Pharmaceuticals, Inc.[3][15]	Drug Discovery & Development	Warrant	Common Stock	200	28	
Horizon Pharma, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	22,408	231	46
uniQure B.V.[3][5][10]	Drug Discovery & Development	Warrant	Common Stock	37,174	218	202
Subtotal: Drug Discovery & Development (0.31%)*					3,280	2,052
Electronics & Computer Hardware						
Clustrix, Inc.	Electronics & Computer Hardware	Warrant	Common Stock	50,000	12	18
Identive Group, Inc.[3]	Electronics & Computer Hardware	Warrant	Common Stock	992,084	247	467
Subtotal: Electronics & Computer Hardware (0.07%)*					259	485
Healthcare Services, Other						
MDEverywhere, Inc.	Healthcare Services, Other	Warrant	Common Stock	129	94	33
Subtotal: Healthcare Services, Other (0.01%)*					94	33
Information Services						
Cha Cha Search, Inc.[15]	Information Services	Warrant	Preferred Series G	48,232	59	10

InXpo, Inc.(15)	Information Services	Warrant	Preferred Series C	648,400	98	30
	Information Services	Warrant	Preferred Series C-1	582,015	49	27
Total InXpo, Inc.				1,230,415	147	57
Jab Wireless, Inc.(15)	Information Services	Warrant	Preferred Series A	266,567	265	282
RichRelevance, Inc.(15)	Information Services	Warrant	Preferred Series E	112,612	98	
Subtotal: Information Services (0.16%)*					569	349
Internet Consumer & Business Services						
Blurb, Inc.(15)	Internet Consumer & Business Services	Warrant	Preferred Series B	218,684	299	108
	Internet Consumer & Business Services	Warrant	Preferred Series C	234,280	636	183
Total Blurb, Inc.				452,964	935	291

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Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
CashStar, Inc.[15]	Internet Consumer & Business Services	Warrant	Preferred Series C-2	727,272	130	70
Gazelle, Inc.[15]	Internet Consumer & Business Services	Warrant	Preferred Series D	151,827	165	
Just Fabulous, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series B	137,456	589	1,095
Prism Education Group, Inc.[15]	Internet Consumer & Business Services	Warrant	Preferred Series B	200,000	43	
Progress Financial	Internet Consumer & Business Services	Warrant	Preferred Series G	174,562	77	53
Reply! Inc.	Internet Consumer & Business Services	Warrant	Preferred Series B	137,225	320	144
ShareThis, Inc.[15]	Internet Consumer & Business Services	Warrant	Preferred Series C	493,502	547	250
Tectura Corporation	Internet Consumer & Business Services	Warrant	Preferred Series B-1	253,378	51	
WaveMarket, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series B-1	1,083,779	106	74
Subtotal: Internet Consumer & Business Services (0.30%)					2,963	1,977
Media/Content/Info						
Everyday Health, Inc. (pka Waterfront Media, Inc.)[3]	Media/Content/Info	Warrant	Common Stock	73,345	60	500
Glam Media, Inc.[15]	Media/Content/Info	Warrant	Preferred Series D	407,457	482	
Rhapsody International Inc.[15]	Media/Content/Info	Warrant	Common Stock	715,755	384	385
Zoom Media and Marketing	Media/Content/Info	Warrant	Preferred Series A	1,204	348	285
Subtotal: Media/Content/Info (0.18%)*					1,274	1,170
Medical Devices & Equipment						
Baxano Surgical, Inc.[3]	Medical Devices & Equipment	Warrant	Common Stock	882,353	$ 440	$ 319
Gelesis, Inc.[6][15]	Medical Devices & Equipment	Warrant	LLC Interest	263,688	78	5
Home Dialysis Plus	Medical Devices & Equipment	Warrant	Preferred Series A	300,000	245	313

InspireMD, Inc.(3)(5)(10)	Medical Devices & Equipment	Warrant	Common Stock	168,351	242	221
Medrobotics Corporation(15)	Medical Devices & Equipment	Warrant	Preferred Series E	455,539	370	339
MELA Sciences, Inc.(3)	Medical Devices & Equipment	Warrant	Common Stock	693,202	401	82
NetBio, Inc.	Medical Devices & Equipment	Warrant	Common Stock	2,568	408	243
NinePoint Medical, Inc.(15)	Medical Devices & Equipment	Warrant	Preferred Series A-1	587,840	170	253
Novasys Medical, Inc.	Medical Devices & Equipment	Warrant	Common Stock	109,449	2	
	Medical Devices & Equipment	Warrant	Preferred Series D	526,840	125	
	Medical Devices & Equipment	Warrant	Preferred Series D-1	53,607	6	
Total Novasys Medical, Inc.				689,896	133	

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Optiscan Biomedical, Corp.[6][15]	Medical Devices & Equipment	Warrant	Preferred Series D	10,535,275	1,252	235
Oraya Therapeutics, Inc.	Medical Devices & Equipment	Warrant	Common Stock	95,498	66	
	Medical Devices & Equipment	Warrant	Preferred Series C-1	716,948	676	
Total Oraya Therapeutics, Inc.				812,446	742	
SonaCare Medical, LLC (pka US HIFUM LLC)	Medical Devices & Equipment	Warrant	Preferred Series A	409,704	188	214
United Orthopedic Group, Inc.	Medical Devices & Equipment	Warrant	Preferred Series A	423,076	608	820
ViewRay, Inc.[15]	Medical Devices & Equipment	Warrant	Preferred Series C	312,500	333	340
Subtotal: Medical Devices & Equipment (0.52%)*					5,610	3,384
Semiconductors						
Achronix Semiconductor Corporation	Semiconductors	Warrant	Preferred Series C	360,000	160	189
Avnera Corporation	Semiconductors	Warrant	Preferred Series E	102,958	14	14
SiTime Corporation[15]	Semiconductors	Warrant	Preferred Series G	195,683	23	7
Subtotal: Semiconductors (0.03%)*					197	210
Software						
Atrenta, Inc.	Software	Warrant	Preferred Series D	392,670	121	361
Braxton Technologies, LLC	Software	Warrant	Preferred Series A	168,750	188	
Central Desktop, Inc.[15]	Software	Warrant	Preferred Series B	522,769	108	289
Clickfox, Inc.[15]	Software	Warrant	Preferred Series B	1,038,563	329	523
	Software	Warrant	Preferred Series C	592,019	730	380
Total Clickfox, Inc.				1,630,582	1,059	903
Daegis Inc. (pka Unify Corporation)[3][15]	Software	Warrant	Common Stock	718,860	1,434	99
ForeScout Technologies, Inc.	Software	Warrant	Preferred Series E	80,587	41	116
Hillcrest Laboratories, Inc.[15]	Software	Warrant	Preferred Series E	1,865,650	55	153
Knowledge Adventure, Inc.[15]	Software	Warrant	Preferred Series E	550,781	15	15
Mobile Posse, Inc.[15]	Software	Warrant	Preferred Series C	396,430	129	118

Neos Geosolutions, Inc.[15]	Software	Warrant	Preferred Series 3	221,150	22	
Sonian, Inc.[15]	Software	Warrant	Preferred Series C	185,949	106	83
SugarSync, Inc.[15]	Software	Warrant	Preferred Series CC	332,726	78	101
	Software	Warrant	Preferred Series DD	107,526	34	34
Total SugarSync, Inc.				440,252	112	135
Touchcommerce, Inc.[15]	Software	Warrant	Preferred Series E	992,595	252	187
White Sky, Inc.[15]	Software	Warrant	Preferred Series B-2	124,295	54	1
WildTangent, Inc.[15]	Software	Warrant	Preferred Series 3	100,000	238	61
Subtotal: Software (0.39%)*					3,934	2,521
Specialty Pharmaceuticals						
QuatRx Pharmaceuticals Company	Specialty Pharmaceuticals	Warrant	Preferred Series	155,324	$ 307	$
Subtotal: Specialty Pharmaceuticals (0.00%)*					307	
Surgical Devices						
Gynesonics, Inc.[15]	Surgical Devices	Warrant	Preferred Series C	180,480	75	29
	Surgical Devices	Warrant	Preferred Series D	1,575,965	320	406
Total Gynesonics, Inc.				1,756,445	395	435

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Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Transmedics, Inc.	Surgical Devices	Warrant	Preferred Series B	40,436	225	7
	Surgical Devices	Warrant	Preferred Series D	175,000	100	340
Total Transmedics, Inc.				215,436	325	347
Subtotal: Surgical Devices (0.12%)*					720	782
Total Warrant (3.60%)*					31,895	23,614
Total Investments (136.32%)*					$ 887,628	$ 890,662

* Value as a percent of net assets

(1) Preferred and common stock, warrants, and equity interests are generally non-income producing.

(2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled $47.2 million, $45.8 million and $1.4 million respectively. The tax cost of investments is $885.7 million.

(3) Except for warrants in twenty-four publicly traded companies and common stock in ten publicly traded companies, all investments are restricted at March 31, 2014 and were valued at fair value as determined in good faith by the Valuation Committee of the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

(4) Debt investments of this portfolio company have been pledged as collateral under the Wells Facility.

(5) Non-U.S. company or the company s principal place of business is outside the United States.

(6) Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 5% but not more than 25% of the voting securities of the company.

(7) Control investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 25% of the voting securities of the company or has greater than 50% representation on its board.

(8) Debt is on non-accrual status at March 31, 2014, and is therefore considered non-income producing.

(9) Denotes that all or a portion of the debt investment is convertible senior debt.

(10) Indicates assets that the Company deems not qualifying assets under section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company s total assets at the time of acquisition of any additional non-qualifying assets.

(11) Denotes that all or a portion of the debt investment secures the notes offered in the Debt Securitization (as defined in Note 4).

(12) Subsequent to March 31, 2014, this company completed a reverse merger. Note that the March 31, 2014 fair value does not reflect any potential impact of the conversion of our preferred shares to the new entity.

(13) Denotes that all or a portion of the debt investment principal includes accumulated PIK, or paid-in-kind, interest and is net of repayments.

(14) Denotes that all or a portion of the debt investment includes an exit fee receivable.

(15) Denotes that all or a portion of the investment in this portfolio company is held by HT II or HT III, the Company s wholly-owned SBIC subsidiaries.

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Maturity Date	Interest Rate and Floor	Principal Amount	Cost[2]	Value[3]
Debt							
Biotechnology Tools							
1-5 Years Maturity							
Labcyte, Inc.[11]	Biotechnology Tools	Senior Secured	June 2016	Interest rate PRIME + 6.70% or Floor rate of 9.95%	$ 4,270	$ 4,323	$ 4,289
Subtotal: 1-5 Years Maturity						4,323	4,289
Subtotal: Biotechnology Tools (0.66%)*						4,323	4,289
Energy Technology							
Under 1 Year Maturity							
American Superconductor Corporation[3][11]	Energy Technology	Senior Secured	December 2014	Interest rate PRIME + 7.25% or Floor rate of 11.00%	$ 4,615	4,991	4,991
Brightsource Energy, Inc.	Energy Technology	Senior Secured	January 2014	Interest rate Prime + 8.25% or Floor rate of 11.50%	$ 15,000	15,886	15,886
Enphase Energy, Inc.[11]	Energy Technology	Senior Secured	June 2014	Interest rate PRIME + 5.75% or Floor rate of 9.00%	$ 1,315	1,358	1,358
Subtotal: Under 1 Year Maturity						22,236	22,236
1-5 Years Maturity							
Agrivida, Inc.	Energy Technology	Senior Secured	December 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 6,000	5,887	5,770
American Superconductor Corporation[3][11]	Energy Technology	Senior Secured	November 2016	Interest rate PRIME + 7.25% or Floor rate of 11.00%	$ 10,000	9,801	9,801
APTwater, Inc	Energy Technology	Senior Secured	April 2017	Interest rate PRIME + 6.75% or Floor rate of 10.00%, PIK Interest 2.75%	$ 18,085	17,874	17,874
BioAmber, Inc.[5][10]	Energy Technology	Senior Secured	June 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 25,000	25,298	25,798
Enphase Energy, Inc.[11]	Energy Technology	Senior Secured	August 2016	Interest rate PRIME + 8.25% or Floor rate of 11.50%	$ 7,400	7,422	7,314
Fluidic, Inc.	Energy Technology	Senior Secured	March 2016	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 5,000	4,922	4,922
Fulcrum Bioenergy, Inc.[11]	Energy Technology	Senior Secured	November 2016	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 10,000	9,944	9,694
Glori Energy, Inc.[11]	Energy Technology	Senior Secured	June 2015	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 5,333	5,457	5,414
Polyera Corporation	Energy Technology	Senior Secured	June 2016	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 5,809	5,797	5,686
SCIEnergy, Inc.[4]	Energy Technology	Senior Secured	September 2015	Interest rate PRIME + 8.75% or Floor rate of 12.00%	$ 4,448	4,596	4,685

Scifiniti (pka Integrated Photovoltaics, Inc.)	Energy Technology	Senior Secured	February 2015	Interest rate PRIME + 7.38% or Floor rate of 10.63%	$ 1,463	1,443	1,429
Stion Corporation.(4)(6)	Energy Technology	Senior Secured	February 2015	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 4,571	4,005	4,096
TAS Energy, Inc.	Energy Technology	Senior Secured	February 2015	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 15,000	15,277	15,421
	Energy Technology	Senior Secured	February 2015	Interest rate PRIME + 6.25% or Floor rate of 9.50%	$ 4,503	4,374	4,338
Total TAS Energy, Inc.						19,651	19,760
TPI Composites, Inc.	Energy Technology	Senior Secured	June 2016	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 15,000	14,888	14,889
Subtotal: 1-5 Years Maturity						136,985	137,131
Subtotal: Energy Technology (24.52%)*(13)						159,221	159,367

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Maturity Date	Interest Rate and Floor	Principal Amount	Cost[2]	Value[3]
Communications & Networking							
1-5 Years Maturity							
OpenPeak, Inc.[11]	Communications & Networking	Senior Secured	July 2015	Interest rate PRIME + 8.75% or Floor rate of 12.00%	$ 10,029	$ 10,714	$ 10,814
Spring Mobile Solutions, Inc.	Communications & Networking	Senior Secured	November 2016	Interest rate PRIME + 8.00% or Floor rate of 11.25%	$ 20,000	19,682	19,875
Subtotal: 1-5 Years Maturity						30,396	30,690
Subtotal: Communications & Networking (4.72%)*						30,396	30,690
Drug Delivery							
1-5 Years Maturity							
AcelRx Pharmaceuticals, Inc.[3][10]	Drug Delivery	Senior Secured	October 2017	Interest rate PRIME + 3.85% or Floor rate of 9.10%	$ 15,000	14,556	15,006
BIND Therapeutics, Inc.[3]	Drug Delivery	Senior Secured	September 2016	Interest rate Prime + 7.00% or Floor rate of 10.25%	$ 4,500	4,407	4,458
Celsion Corporation[3]	Drug Delivery	Senior Secured	June 2017	Interest rate Prime + 8.00% or Floor rate of 11.25%	$ 5,000	4,897	4,897
Dance Biopharm, Inc.	Drug Delivery	Senior Secured	August 2017	Interest rate PRIME + 7.4% or Floor rate of 10.65%	$ 1,000	974	974
Intelliject, Inc.[11]	Drug Delivery	Senior Secured	June 2016	Interest rate PRIME + 5.75% or Floor rate of 11.00%	$ 15,000	15,150	15,450
NuPathe, Inc.[3]	Drug Delivery	Senior Secured	May 2016	Interest rate Prime - 3.25% or Floor rate of 9.85%	$ 5,749	5,629	5,744
Revance Therapeutics, Inc.	Drug Delivery	Senior Secured	March 2015	Interest rate PRIME + 6.60% or Floor rate of 9.85%	$ 9,798	10,032	9,943
	Drug Delivery	Senior Secured	March 2015	Interest rate PRIME + 6.60% or Floor rate of 9.85%	$ 980	1,011	994
Total Revance Therapeutics, Inc.						11,043	10,937
Subtotal: 1-5 Years Maturity						56,655	57,466
Subtotal: Drug Delivery (8.84%)*						56,655	57,466
Drug Discovery & Development							
1-5 Years Maturity							

ADMA Biologics, Inc.(3)	Drug Discovery & Development	Senior Secured	April 2016	Interest rate Prime + 2.75% or Floor rate of 8.50%	$ 5,000	4,956	4,892
Anacor Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Secured	July 2017	Interst rate PRIME + 6.40% or Floor rate of 11.65%	$ 30,000	29,083	29,810
Aveo Pharmaceuticals, Inc.(3)(10)(11)	Drug Discovery & Development	Senior Secured	September 2015	Interest rate PRIME + 7.15% or Floor rate of 11.90%	$ 19,396	19,396	19,590
Cell Therapeutics, Inc.(3)(11)	Drug Discovery & Development	Senior Secured	October 2016	Interest rate Prime + 9.00% or Floor rate of 12.25%	$ 15,000	14,750	15,200
Cempra, Inc.(3)(11)	Drug Discovery & Development	Senior Secured	June 2017	Interest rate PRIME + 6.30% or Floor rate of 9.55%	$ 15,000	14,795	14,550
Cleveland BioLabs, Inc.(3)	Drug Discovery & Development	Senior Secured	January 2017	Interest rate PRIME + 6.20% or Floor rate of 10.45%	$ 6,000	5,909	5,909
Concert Pharmaceuticals, Inc.(4)	Drug Discovery & Development	Senior Secured	October 2015	Interest rate PRIME + 3.25% or Floor rate of 8.50%	$ 15,091	14,933	14,649
Coronado Biosciences, Inc.(3)(11)	Drug Discovery & Development	Senior Secured	March 2016	Interest rate PRIME + 6.00% or Floor rate of 9.25%	$ 13,654	13,720	13,449
Dicerna Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Secured	January 2015	Interest rate PRIME + 4.40% or Floor rate of 10.15%	$ 5,026	4,991	4,981
Insmed, Incorporated(11)	Drug Discovery & Development	Senior Secured	January 2016	Interest rate PRIME + 4.75% or Floor rate of 9.25%	$ 20,000	19,708	19,535
Merrimack Pharmaceuticals, Inc.(3)	Drug Discovery & Development	Senior Secured	November 2016	Interest rate PRIME + 5.30% or Floor rate of 10.55%	$ 40,000	40,314	39,455
Neuralstem, Inc.(3)	Drug Discovery & Development	Senior Secured	June 2016	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 8,000	7,874	8,035

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Portfolio Company	Sub-Industry	Type of Investment[1]	Maturity Date	Interest Rate and Floor	Principal Amount	Cost[2]	Value[3]
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Senior Secured	N/A	Interest rate Fixed 10.00%	$ 36	$ 36	$
	Drug Discovery & Development	Senior Secured	N/A	Interest rate Fixed 10.00%	$ 45	45	
	Drug Discovery & Development	Senior Secured	N/A	N/A	$ 28	28	
Total Paratek Pharmaceuticals, Inc.					$ 109	109	
uniQure B.V.[5][10][11]	Drug Discovery & Development	Senior Secured	October 2016	Interest rate PRIME + 8.60% or Floor rate of 11.85%	$ 10,000	9,695	9,818
Subtotal: 1-5 Years Maturity						200,232	199,872
Subtotal: Drug Discovery & Development (30.75%)*						200,232	199,872
Electronics & Computer Hardware							
1-5 Years Maturity							
Clustrix, Inc.	Electronics & Computer Hardware	Senior Secured	December 2015	Interest rate PRIME + 6.50% or Floor rate of 9.75%	$ 524	526	526
Identive Group, Inc.[3][11]	Electronics & Computer Hardware	Senior Secured	November 2015	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 5,938	5,696	5,755
OCZ Technology Group, Inc.	Electronics & Computer Hardware	Senior Secured	April 2016	Interest rate Prime + 8.75% or Floor rate of 12.50%, PIK Interest 3.00%	$ 1,221	1,221	1,221
Plures Technologies, Inc.[3]	Electronics & Computer Hardware	Senior Secured	October 2016	Interest rate Prime + 12.75% or Floor rate of 16.00%, PIK Interest 4.00%	$ 2,046	1,958	1,458
Subtotal: 1-5 Years Maturity						9,400	8,959
Subtotal: Electronics & Computer Hardware (1.38%)*						9,400	8,959
Healthcare Services, Other							
1-5 Years Maturity							
InstaMed Communications, LLC	Healthcare Services, Other	Senior Secured	December 2016	Interest rate PRIME + 7.25% or Floor rate of 10.50%	$ 3,000	2,979	2,979
MDEverywhere, Inc.	Healthcare Services, Other	Senior Secured	June 2016	Interest rate LIBOR + 9.50% or Floor rate of 10.75%	$ 2,000	1,875	1,907

Orion Healthcorp, Inc.	Healthcare Services, Other	Senior Secured	June 2017	Interest rate LIBOR + 10.50% or Floor rate of 12.00%, PIK Interest 3.00%	$	6,591	6,467	6,413
	Healthcare Services, Other	Senior Secured	June 2017	Interest rate LIBOR + 9.50% or Floor rate of 11.00%	$	9,000	8,838	8,445
	Healthcare Services, Other	Senior Secured	June 2016	Interest rate LIBOR + 8.25% or Floor rate of 9.50%	$	500	465	461
Total Orion Healthcorp, Inc.					$	16,091	15,769	15,318
Pacific Child & Family Associates, LLC	Healthcare Services, Other	Senior Secured	January 2015	Interest rate LIBOR + 9.00% or Floor rate of 11.50%	$	1,946	2,017	1,988
	Healthcare Services, Other	Senior Secured	January 2015	Interest rate LIBOR + 11.00% or Floor rate of 14.00%, PIK interest 3.75%	$	6,836	6,867	6,833
Total Pacific Child & Family Associates, LLC					$	8,782	8,884	8,822
Subtotal: 1-5 Years Maturity							29,508	29,025
Subtotal: Healthcare Services, Other (4.47%)*							29,508	29,025

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Information Services							
1-5 Years Maturity							
Eccentex Corporation(11)	Information Services	Senior Secured	May 2015	Interest rate PRIME + 7.00% or Floor rate of 10.25%	$ 657	$ 658	$ 185
InXpo, Inc.	Information Services	Senior Secured	April 2016	Interest rate PRIME + 7.50% or Floor rate of 10.75%	$ 2,550	2,489	2,384
Jab Wireless, Inc.	Information Services	Senior Secured	November 2017	Interest rate Libor + 6.75% or Floor rate of 8.00%	$ 30,000	29,822	29,822
	Information Services	Senior Secured	November 2017	Interest rate Prime + 6.75% or Floor rate of 8.00%	$ 2,000	1,996	1,996
Total Jab Wireless, Inc.					$ 32,000	31,818	31,818
Womensforum.com(11)	Information Services	Senior Secured	October 2016	Interest rate LIBOR + 7.50% or Floor rate of 10.25%, PIK Interest 2.00%	$ 4,607	4,536	4,127
	Information Services	Senior Secured	October 2016	Interest rate LIBOR + 6.50% or Floor rate of 9.25%	$ 6,900	6,793	6,470
	Information Services	Senior Secured	April 2015	Interest rate LIBOR + 6.50% or Floor rate of 9.00%	$ 1,250	1,227	1,156
Total Womensforum.com					$ 12,757	12,556	11,754
Subtotal: 1-5 Years Maturity						47,521	46,140
Subtotal: Information Services (7.10%)*						47,521	46,140
Internet Consumer & Business Services							
Under 1 Year Maturity							
Gazelle, Inc.	Internet Consumer & Business Services	Senior Secured	October 2014	Interest rate PRIME + 6.50% or Floor rate of 9.75%	$ 2,137	2,115	2,115
Tectura Corporation(8)	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 10.00% or Floor rate of 13.00%	$ 6,468	6,467	3,566
	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 8.00% or Floor rate of 11.00%, PIK Interest 1.00%	$ 10,777	10,777	5,943
	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 10.00% or Floor rate of 13.00%	$ 563	563	310
	Internet Consumer & Business Services	Senior Secured	May 2014	Interest rate LIBOR + 10.00% or Floor rate of 13.00%	$ 5,000	5,000	2,757
Total Tectura Corporation					$ 22,807	22,806	12,576
Subtotal: Under 1 Year Maturity						24,921	14,691
1-5 Years Maturity							

Blurb, Inc.	Internet Consumer & Business Services	Senior Secured	December 2015	Interest rate PRIME + 5.25% or Floor rate of 8.50%	$ 6,351	6,216	6,054
CashStar, Inc.	Internet Consumer & Business Services	Senior Secured	June 2016	Interest rate Prime + 6.25% or Floor rate 10.50%, PIK Interest 1.00%	$ 4,018	3,944	3,916
Education Dynamics, LLC	Internet Consumer & Business Services	Senior Secured	March 2016	Interest rate Libor + 12.5% or Floor rate 12.50%, PIK Interest 1.5%	$ 24,685	24,284	23,582
Gazelle, Inc.	Internet Consumer & Business Services	Senior Secured	April 2016	Interest rate Prime + 7.00% or Floor rate of 10.25%, PIK Interest 2.50%	$ 12,365	12,283	12,128
Just Fabulous, Inc.	Internet Consumer & Business Services	Senior Secured	February 2017	Interest rate PRIME + 8.25% or Floor rate of 11.50%	$ 5,000	4,842	4,842

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NetPlenish[8]	Internet Consumer & Business Services	Senior Secured	September 2015	Interest rate FIXED 10.00%	$ 383	$ 375	$
	Internet Consumer & Business Services	Senior Secured	April 2015	Interest rate FIXED 10.00%	$ 97	97	
Total NetPlenish					$ 480	472	
Reply! Inc.[11]	Internet Consumer & Business Services	Senior Secured	February 2016	Interest rate PRIME + 7.25% or Floor rate of 10.50%, PIK Interest 2.00%	$ 3,031	3,051	3,034
	Internet Consumer & Business Services	Senior Secured	September 2015	Interest rate Prime + 6.88% or Floor rate of 10.13%, PIK Interest 2.00%	$ 9,169	9,086	9,169
	Internet Consumer & Business Services	Senior Secured	September 2015	Interest rate Prime + 7.25% or Floor rate of 11.00%, PIK Interest 2.00%	$ 2,020	2,044	2,070
Total Reply! Inc.					$ 14,220	14,181	14,273
ShareThis, Inc.	Internet Consumer & Business Services	Senior Secured	June 2016	Interest rate PRIME + 7.50% or Floor rate of 10.75%	$ 14,578	14,160	14,160
VaultLogix, LLC	Internet Consumer & Business Services	Senior Secured	September 2015	Interest rate LIBOR + 7.00% or Floor rate of 8.50%	$ 7,897	7,927	7,525
	Internet Consumer & Business Services	Senior Secured	September 2016	Interest rate LIBOR + 8.50% or Floor rate of 10.00%, PIK interest 2.50%	$ 7,949	7,898	7,397
Total VaultLogix, LLC					$ 15,847	15,826	14,923
WaveMarket, Inc.[11]	Internet Consumer & Business Services	Senior Secured	September 2015	Interest rate Prime + 5.75% or Floor rate of 9.50%	$ 10,000	9,940	9,665
Subtotal: 1-5 Years Maturity						106,148	103,545
Subtotal: Internet Consumer & Business Services (18.19%)*						131,069	118,236
Media/Content/Info							
Under 1 Year Maturity							
Zoom Media Group, Inc.	Media/Content/Info	Senior Secured	December 2014	Interest rate PRIME + 5.25% or Floor rate of 8.50%	$ 4,000	3,858	3,858

Subtotal: Under 1 Year Maturity						3,858	3,858
1-5 Years Maturity							
Zoom Media Group, Inc.	Media/Content/Info	Senior Secured	December 2015	Interest rate PRIME + 7.25% and PIK + 3.75% or Floor rate of 10.50%	$ 4,288	4,122	4,071
Subtotal: 1-5 Years Maturity						4,122	4,071
Subtotal: Media/Content/Info (1.22%)*						7,981	7,929
Medical Devices & Equipment							
Under 1 Year Maturity							
Oraya Therapeutics, Inc.(9)(11)	Medical Devices & Equipment	Senior Secured	December 2014	Interest rate Fixed 7.00%	$ 500	500	500
Subtotal: Under 1 Year Maturity						500	500
1-5 Years Maturity							
Baxano Surgical, Inc.(3)	Medical Devices & Equipment	Senior Secured	March 2017	Interest rate PRIME + 7.75% or Floor rate of 12.5%	$ 7,500	7,222	7,222
Home Dialysis Plus, Inc.	Medical Devices & Equipment	Senior Secured	April 2017	Interest rate PRIME + 6.35% or Floor rate of 9.60%	$ 10,000	9,732	9,732
InspireMD, Inc.(3)(5)(10)	Medical Devices & Equipment	Senior Secured	February 2017	Interest rate PRIME + 5.00% or Floor rate of 10.50%	$ 10,000	9,696	9,696
Medrobotics Corporation	Medical Devices & Equipment	Senior Secured	March 2016	Interest rate PRIME + 7.85% or Floor rate of 11.10%	$ 4,561	4,489	4,454

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NetBio, Inc.	Medical Devices & Equipment	Senior Secured	August 2017	Interest rate PRIME + 5.00% or Floor rate of 11.00%	$ 5,000	$ 4,788	$ 4,788
NinePoint Medical, Inc.	Medical Devices & Equipment	Senior Secured	January 2016	Interest rate PRIME + 5.85% or Floor rate of 9.10%	$ 5,946	5,911	5,794
Oraya Therapeutics, Inc.[9][11]	Medical Devices & Equipment	Senior Secured	September 2015	Interest rate PRIME + 5.50% or Floor rate of 10.25%	$ 7,064	6,980	7,162
SonaCare Medical, LLC (pka US HIFU, LLC)[11]	Medical Devices & Equipment	Senior Secured	April 2016	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$ 5,667	5,754	5,818
United Orthopedic Group, Inc.	Medical Devices & Equipment	Senior Secured	July 2016	Interest rate PRIME + 8.60% or Floor rate of 11.85%	$ 25,000	24,647	25,166
ViewRay, Inc.	Medical Devices & Equipment	Senior Secured	June 2017	Interest rate PRIME + 7.00% or Floor rate of 10.25%, PIK Interest 1.50%	$ 15,000	14,489	14,489
Subtotal: 1-5 Years Maturity						93,707	94,320
Subtotal: Medical Devices & Equipment (14.59%)*						94,206	94,819
Semiconductors							
1-5 Years Maturity							
Achronix Semiconductor Corporation	Semiconductors	Senior Secured	January 2015	Interest rate PRIME + 10.60% or Floor rate of 13.85%	$ 1,032	1,023	1,006
SiTime Corporation	Semiconductors	Senior Secured	September 2016	Interest rate PRIME + 6.50% or Floor rate of 9.75%	$ 3,500	3,473	3,473
Subtotal: 1-5 Years Maturity						4,495	4,479
Subtotal: Semiconductors (0.69%)*						4,495	4,479
Software							
Under 1 Year Maturity							
Clickfox, Inc.	Software	Senior Secured	September 2014	Interest rate PRIME + 6.75% or Floor rate of 10.00%	$ 2,000	1,979	1,979
StartApp, Inc.	Software	Senior Secured	December 2014	Interest rate PRIME + 2.75% or Floor rate of 6.00%	$ 200	191	191
Touchcommerce, Inc.	Software	Senior Secured	December 2014	Interest rate Prime + 2.25% or Floor rate of 6.50%	$ 3,111	3,071	2,970

Subtotal: Under 1 Year Maturity							5,241	5,140
1-5 Years Maturity								
Clickfox, Inc.	Software	Senior Secured	November 2015	Interest rate PRIME + 8.25% or Floor rate of 11.50%	$	5,842	5,530	5,530
Hillcrest Laboratories, Inc.	Software	Senior Secured	July 2015	Interest rate PRIME + 7.50% or Floor rate of 10.75%	$	2,660	2,630	2,604
Mobile Posse, Inc.	Software	Senior Secured	December 2016	Interest rate PRIME + 7.50% or Floor rate of 10.75%	$	4,000	3,876	3,879
Neos Geosolutions, Inc.	Software	Senior Secured	May 2016	Interest rate Prime + 5.75% or Floor rate of 10.50%	$	3,771	3,808	3,705
Sonian, Inc.	Software	Senior Secured	July 2017	Interest rate PRIME + 7.00% or Floor rate of 10.25%	$	5,500	5,332	5,332
StartApp, Inc.	Software	Senior Secured	March 2017	Interest rate PRIME + 7.75% or Floor rate of 11.00%	$	2,500	2,507	2,498
Touchcommerce, Inc.	Software	Senior Secured	June 2017	Interest rate Prime + 6.00% or Floor rate of 10.25%	$	5,000	4,688	4,767
Subtotal: 1-5 Years Maturity							28,372	28,315
Subtotal: Software (5.15%)*							33,613	33,455

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Portfolio Company	Sub-Industry	Type of Investment(1)	Maturity Date	Interest Rate and Floor	Principal Amount	Cost(2)	Value(3)
Specialty Pharmaceuticals							
1-5 Years Maturity							
Rockwell Medical, Inc.	Specialty Pharmaceuticals	Senior Secured	March 2017	Interest rate PRIME + 9.25% or Floor rate of 12.50%	$ 20,000	$ 20,055	$ 20,055
Subtotal: 1-5 Years Maturity						20,055	20,055
Subtotal: Specialty Pharmaceuticals (3.09%)*						20,055	20,055
Surgical Devices							
1-5 Years Maturity							
Transmedics, Inc.(11)	Surgical Devices	Senior Secured	November 2015	Interest rate FIXED 12.95%	$ 7,250	7,207	7,207
Subtotal: 1-5 Years Maturity						7,207	7,207
Subtotal: Surgical Devices (1.11%)*						7,207	7,207
Total Debt (126.46%)*						835,882	821,988

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Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Equity						
Biotechnology Tools						
NuGEN Technologies, Inc.	Biotechnology Tools	Equity	Preferred Series C	189,394	$ 500	$ 687
Subtotal: Biotechnology Tools (0.11%)*					500	687
Communications & Networking						
GlowPoint, Inc.[3]	Communications & Networking	Equity	Common Stock	114,192	102	157
Peerless Network, Inc.	Communications & Networking	Equity	Preferred Series A	1,000,000	1,000	3,621
Stoke, Inc.	Communications & Networking	Equity	Preferred Series E	152,905	500	224
Subtotal: Communications & Networking (0.62%)*					1,602	4,002
Consumer & Business Products						
Caivis Acquisition Corporation	Consumer & Business Products	Equity	Common Stock	295,861	819	598
IPA Holdings, LLC	Consumer & Business Products	Equity	LLC Interest	500,000	500	676
Market Force Information, Inc.	Consumer & Business Products	Equity	Preferred Series B	187,970	500	285
Subtotal: Consumer & Business Products (0.24%)*					1,819	1,559
Diagnostic						
Singulex, Inc.	Diagnostic	Equity	Common Stock	937,998	750	750
Subtotal: Diagnostic (0.12%)*					750	750
Drug Delivery						
AcelRx Pharmaceuticals, Inc.[3][10]	Drug Delivery	Equity	Common Stock	89,243	178	1,009
Merrion Pharmaceuticals, Plc[3][5][10]	Drug Delivery	Equity	Common Stock	20,000	9	
NuPathe, Inc.[3]	Drug Delivery	Equity	Common Stock	50,000	146	164
Transcept Pharmaceuticals, Inc.[3]	Drug Delivery	Equity	Common Stock	41,570	500	140
Subtotal: Drug Delivery (0.20%)*					833	1,313
Drug Discovery & Development						
Acceleron Pharma, Inc.[3]		Equity	Common Stock	256,410	1,505	9,286

	Drug Discovery & Development					
Aveo Pharmaceuticals, Inc.(3)(10)	Drug Discovery & Development	Equity	Common Stock	167,864	842	307
Dicerna Pharmaceuticals, Inc.(12)	Drug Discovery & Development	Equity	Preferred Series B	20,107	503	228
	Drug Discovery & Development	Equity	Preferred Series C	142,858	1,000	1,055
Total Dicerna Pharmaceuticals, Inc.				162,965	1,503	1,283
Inotek Pharmaceuticals Corporation	Drug Discovery & Development	Equity	Common Stock	15,334	1,500	
Merrimack Pharmaceuticals, Inc.(3)	Drug Discovery & Development	Equity	Common Stock	546,448	2,000	2,912
Paratek Pharmaceuticals, Inc.	Drug Discovery & Development	Equity	Common Stock	85,450	5	
	Drug Discovery & Development	Equity	Preferred Series H	244,158	1,000	
Total Paratek Pharmaceuticals, Inc.				329,608	1,005	
Subtotal: Drug Discovery & Development (2.12%)*					8,355	13,788

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Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Information Services						
Buzznet, Inc.	Information Services	Equity	Preferred Series C	263,158	$ 250	$
Good Technologies, Inc. (pka Visto Corporation)	Information Services	Equity	Common Stock	500,000	603	
Subtotal: Information Services (0.00%)*					853	
Internet Consumer & Business Services						
Blurb, Inc.	Internet Consumer & Business Services	Equity	Preferred Series B	220,653	175	444
Philotic, Inc.	Internet Consumer & Business Services	Equity	Common Stock	8,121	92	
Progress Financial	Internet Consumer & Business Services	Equity	Preferred Series G	218,351	250	280
Trulia, Inc.[3]	Internet Consumer & Business Services	Equity	Common Stock	29,340	141	1,035
Subtotal: Internet Consumer & Business Services (0.27%)*					658	1,759
Media/Content/Info						
Everyday Health, Inc. (pka Waterfront Media, Inc.)	Media/Content/Info	Equity	Preferred Series D	145,590	1,000	425
Subtotal: Media/Content/Info (0.07%)*					1,000	425
Medical Devices & Equipment						
Gelesis, Inc.[6]	Medical Devices & Equipment	Equity	LLC Interest	2,024,092	925	466
Medrobotics Corporation	Medical Devices & Equipment	Equity	Preferred Series E	136,798	250	269
Novasys Medical, Inc.	Medical Devices & Equipment	Equity	Preferred Series D-1	4,118,444	1,000	
Optiscan Biomedical, Corp.[6]	Medical Devices & Equipment	Equity	Preferred Series B	6,185,567	3,000	411
	Medical Devices & Equipment	Equity	Preferred Series C	1,927,309	655	135
	Medical Devices & Equipment	Equity	Preferred Series D	41,352,489	3,945	4,006
Total Optiscan Biomedical, Corp.				49,465,365	7,600	4,552
Subtotal: Medical Devices & Equipment (0.81%)*					9,775	5,287
Software						
Atrenta, Inc.	Software	Equity	Preferred Series C	1,196,845	986	1,607

	Software	Equity	Preferred Series D	635,513	508	1,088
Total Atrenta, Inc.				1,832,358	1,494	2,695
Box, Inc.	Software	Equity	Preferred Series C	390,625	500	7,031
	Software	Equity	Preferred Series D	158,133	500	2,846
	Software	Equity	Preferred Series D-1	124,511	1,000	2,241
	Software	Equity	Preferred Series D-2	220,751	2,001	3,974
	Software	Equity	Preferred Series E	38,183	500	687
Total Box, Inc.				932,203	4,501	16,779
CapLinked, Inc.	Software	Equity	Preferred Series A-3	53,614	51	94
ForeScout Technologies, Inc.	Software	Equity	Preferred Series D	319,099	398	849
HighRoads, Inc.	Software	Equity	Preferred Series B	190,170	307	337
Subtotal: Software (3.19%)*					6,751	20,754

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Specialty Pharmaceuticals						
QuatRx Pharmaceuticals Company	Specialty Pharmaceuticals	Equity	Preferred Series E	241,829	$ 750	$
	Specialty Pharmaceuticals	Equity	Preferred Series E-1	26,955		
	Specialty Pharmaceuticals	Equity	Preferred Series G	4,667,636		
Total QuatRx Pharmaceuticals Company				4,936,420	750	
Subtotal: Specialty Pharmaceuticals (0.00%)*					750	
Surgical Devices						
Gynesonics, Inc.	Surgical Devices	Equity	Preferred Series B	219,298	250	73
	Surgical Devices	Equity	Preferred Series C	656,538	282	123
	Surgical Devices	Equity	Preferred Series D	1,621,553	580	749
Total Gynesonics, Inc.				2,497,389	1,112	945
Transmedics, Inc.	Surgical Devices	Equity	Preferred Series B	88,961	1,100	303
	Surgical Devices	Equity	Preferred Series C	119,999	300	212
	Surgical Devices	Equity	Preferred Series D	260,000	650	886
Total Transmedics, Inc.				468,960	2,050	1,401
Subtotal: Surgical Devices (0.36%)*					3,162	2,346
Total Equity (8.10%)*					36,808	52,670
Warrant						
Biotechnology Tools						
Labcyte, Inc.	Biotechnology Tools	Warrant	Preferred Series C	1,127,624	323	65
NuGEN Technologies, Inc.	Biotechnology Tools	Warrant	Preferred Series B	234,659	78	234

Subtotal: Biotechnology Tools (0.05%)*	401	299

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Energy Technology						
Agrivida, Inc.	Energy Technology	Warrant	Preferred Series C	77,447	120	243
Alphabet Energy, Inc.	Energy Technology	Warrant	Preferred Series A	86,329	82	176
American Superconductor Corporation(3)	Energy Technology	Warrant	Common Stock	512,820	391	175
Brightsource Energy, Inc.	Energy Technology	Warrant	Preferred Series 1	175,000	780	214
Calera, Inc.	Energy Technology	Warrant	Preferred Series C	44,529	513	
EcoMotors, Inc.	Energy Technology	Warrant	Preferred Series B	437,500	308	475
Fluidic, Inc.	Energy Technology	Warrant	Preferred Series C	59,665	102	138
Fulcrum Bioenergy, Inc.	Energy Technology	Warrant	Preferred Series C-1	280,897	275	210
Glori Energy, Inc.	Energy Technology	Warrant	Preferred Series C	145,932	165	50
GreatPoint Energy, Inc.	Energy Technology	Warrant	Preferred Series D-1	393,212	548	
Polyera Corporation	Energy Technology	Warrant	Preferred Series C	161,575	69	44
Propel Fuels	Energy Technology	Warrant	Preferred Series C	3,200,000	211	233
SCIEnergy, Inc.	Energy Technology	Warrant	Preferred Series D	1,061,623	360	2
Scifiniti (pka Integrated Photovoltaics, Inc.)	Energy Technology	Warrant	Preferred Series B	390,000	82	68
Solexel, Inc.	Energy Technology	Warrant	Preferred Series C	1,171,625	1,162	278
Stion Corporation(6)	Energy Technology	Warrant	Preferred Series Seed	2,154	1,378	1,627
TAS Energy, Inc.	Energy Technology	Warrant	Preferred Series F	428,571	299	756
TPI Composites, Inc.	Energy Technology	Warrant	Preferred Series B	120	172	376
Trilliant, Inc.	Energy Technology	Warrant	Preferred Series A	320,000	162	34
Subtotal: Energy Technology (0.78%)*(13)					7,179	5,099
Communications & Networking						
Intelepeer, Inc.	Communications & Networking	Warrant	Preferred Series C	117,958	$ 102	$ 112
OpenPeak, Inc.	Communications & Networking	Warrant	Preferred Series 2	108,982	149	
PeerApp, Inc.	Communications & Networking	Warrant	Preferred Series B	298,779	61	41
Peerless Network, Inc.	Communications & Networking	Warrant	Preferred Series A	135,000	95	368
Ping Identity Corporation	Communications & Networking	Warrant	Preferred Series B	1,136,277	52	98
Spring Mobile Solutions, Inc.	Communications & Networking	Warrant	Preferred Series D	2,834,375	417	661
Stoke, Inc.	Communications & Networking	Warrant	Preferred Series C	158,536	53	5
	Communications & Networking	Warrant	Preferred Series D	72,727	65	2
Total Stoke, Inc.				231,263	118	7
Subtotal: Communications & Networking (0.20%)*					994	1,287

Consumer & Business Products						
Intelligent Beauty, Inc.	Consumer & Business Products	Warrant	Preferred Series B	190,234	230	1,027
IPA Holdings, LLC	Consumer & Business Products	Warrant	Common Stock	650,000	275	408
Market Force Information, Inc.	Consumer & Business Products	Warrant	Preferred Series A	99,286	24	1
Subtotal: Consumer & Business Products (0.22%)*					529	1,436

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2013

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Diagnostic						
Navidea Biopharmaceuticals, Inc. (pka Neoprode)[3]	Diagnostic	Warrant	Common Stock	333,333	244	152
Subtotal: Diagnostic (0.02%)*					244	152
Drug Delivery						
AcelRx Pharmaceuticals, Inc.[3][10]	Drug Delivery	Warrant	Common Stock	176,730	786	961
Alexza Pharmaceuticals, Inc.[3]	Drug Delivery	Warrant	Common Stock	37,639	645	1
BIND Therapeutics, Inc.[3]	Drug Delivery	Warrant	Common Stock	71,359	367	294
Celsion Corporation[3]	Drug Delivery	Warrant	Common Stock	97,493	227	249
Dance Biopharm, Inc.	Drug Delivery	Warrant	Preferred Series A	97,701	74	154
Intelliject, Inc.	Drug Delivery	Warrant	Preferred Series B	82,500	594	1,115
NuPathe, Inc.[3]	Drug Delivery	Warrant	Common Stock	106,631	139	136
Revance Therapeutics, Inc.[12]	Drug Delivery	Warrant	Preferred Series E-5	802,675	557	330
Transcept Pharmaceuticals, Inc.[3]	Drug Delivery	Warrant	Common Stock	61,452	87	3
Subtotal: Drug Delivery (0.50%)*					3,476	3,243
Drug Discovery & Development						
Acceleron Pharma, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	11,611	39	294
ADMA Biologics, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	31,750	129	73
Anthera Pharmaceuticals, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	40,178	984	9
Cell Therapeutics, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	679,040	405	601
Cempra, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	138,797	458	728
Chroma Therapeutics, Ltd.[5][10]	Drug Discovery & Development	Warrant	Preferred Series D	325,261	$ 490	$ 500
Cleveland BioLabs, Inc[3]	Drug Discovery & Development	Warrant	Common Stock	156,250	105	66
Concert Pharmaceuticals, Inc.[12]	Drug Discovery & Development	Warrant	Preferred Series C	400,000	367	577
Coronado Biosciences, Inc.[3]	Drug Discovery & Development	Warrant	Common Stock	73,009	142	41

Dicerna Pharmaceuticals, Inc.(12)	Drug Discovery & Development	Warrant	Common Stock	200	28	
	Drug Discovery & Development	Warrant	Preferred Series A	21,000	237	38
	Drug Discovery & Development	Warrant	Preferred Series B	26,400	310	48
Total Dicerna Pharmaceuticals, Inc.				47,600	575	86
Horizon Pharma, Inc.(3)	Drug Discovery & Development	Warrant	Common Stock	22,408	231	5
Merrimack Pharmaceuticals, Inc.(3)	Drug Discovery & Development	Warrant	Common Stock	302,143	155	488
Neuralstem, Inc.(3)	Drug Discovery & Development	Warrant	Common Stock	648,798	295	1,045
Portola Pharmaceuticals, Inc.(3)	Drug Discovery & Development	Warrant	Common Stock	68,702	153	683
uniQure B.V.(5)(10)(12)	Drug Discovery & Development	Warrant	Preferred Series A	185,873	218	313
Subtotal: Drug Discovery & Development (0.85%)*					4,746	5,509

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December 31, 2013

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Electronics & Computer Hardware						
Clustrix, Inc.	Electronics & Computer Hardware	Warrant	Common Stock	50,000	12	16
Identive Group, Inc.[3]	Electronics & Computer Hardware	Warrant	Common Stock	992,084	247	136
Plures Technologies, Inc.[3]	Electronics & Computer Hardware	Warrant	Preferred Series A	552,467	124	100
Subtotal: Electronics & Computer Hardware (0.04%)*					383	252
Healthcare Services, Other						
MDEverywhere, Inc.	Healthcare Services, Other	Warrant	Common Stock	129	94	55
Subtotal: Healthcare Services, Other (0.01%)*					94	55
Information Services						
Buzznet, Inc.	Information Services	Warrant	Preferred Series B	19,962	9	
Cha Cha Search, Inc.	Information Services	Warrant	Preferred Series G	48,232	57	10
InXpo, Inc.	Information Services	Warrant	Preferred Series C	648,400	98	45
	Information Services	Warrant	Preferred Series C-1	582,015	49	40
Total InXpo, Inc.				1,230,415	147	85
Jab Wireless, Inc.	Information Services	Warrant	Preferred Series A	266,567	265	330
RichRelevance, Inc.	Information Services	Warrant	Preferred Series E	112,612	98	
Subtotal: Information Services (0.07%)*					576	425
Internet Consumer & Business Services						
Blurb, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series B	218,684	299	169
	Internet Consumer & Business Services	Warrant	Preferred Series C	234,280	636	248
Total Blurb, Inc.				452,964	935	417
CashStar, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series C-2	454,545	$ 102	$ 47
Gazelle, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series D	151,827	165	62
Invoke Solutions, Inc.	Internet Consumer & Business Services	Warrant	Common Stock	53,084	39	
Just Fabulous, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series B	137,456	589	1,057
Prism Education Group, Inc.		Warrant	Preferred Series B	200,000	43	

	Internet Consumer & Business Services					
Progress Financial	Internet Consumer & Business Services	Warrant	Preferred Series G	174,562	78	76
Reply! Inc.	Internet Consumer & Business Services	Warrant	Preferred Series B	137,225	320	93
ShareThis, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series C	493,502	546	241
Tectura Corporation	Internet Consumer & Business Services	Warrant	Preferred Series B-1	253,378	51	
WaveMarket, Inc.	Internet Consumer & Business Services	Warrant	Preferred Series B-1	1,083,779	105	85
Subtotal: Internet Consumer & Business Services (0.32%)*					2,973	2,078

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(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment(1)	Series	Shares	Cost(2)	Value(3)
Media/Content/Info						
Everyday Health, Inc. (pka Waterfront Media, Inc.)	Media/Content/Info	Warrant	Preferred Series C	110,018	60	50
Glam Media, Inc.	Media/Content/Info	Warrant	Preferred Series D	407,457	482	
Zoom Media Group, Inc.	Media/Content/Info	Warrant	Preferred Series A	1,204	348	275
Subtotal: Media/Content/Info (0.05%)*					890	325
Medical Devices & Equipment						
Baxano Surgical, Inc.(3)	Medical Devices & Equipment	Warrant	Common Stock	882,353	439	344
Gelesis, Inc.(6)	Medical Devices & Equipment	Warrant	LLC Interest	263,688	78	7
Home Dialysis Plus, Inc.	Medical Devices & Equipment	Warrant	Preferred Series A	300,000	245	297
InspireMD, Inc.(3)(5)(10)	Medical Devices & Equipment	Warrant	Common Stock	168,351	242	167
Medrobotics Corporation	Medical Devices & Equipment	Warrant	Preferred Series D	424,008	343	184
	Medical Devices & Equipment	Warrant	Preferred Series E	34,199	27	23
Total Medrobotics Corporation				458,207	370	207
MELA Sciences, Inc.(3)	Medical Devices & Equipment	Warrant	Common Stock	693,202	401	94
NetBio, Inc.	Medical Devices & Equipment	Warrant	Common Stock	2,568	408	398
NinePoint Medical, Inc.	Medical Devices & Equipment	Warrant	Preferred Series A-1	587,840	170	288
Novasys Medical, Inc.	Medical Devices & Equipment	Warrant	Common Stock	109,449	2	

	Medical Devices & Equipment	Warrant	Preferred Series D	526,840	125	
	Medical Devices & Equipment	Warrant	Preferred Series D-1	53,607	6	
Total Novasys Medical, Inc.				689,896	133	
Optiscan Biomedical, Corp.[(6)]	Medical Devices & Equipment	Warrant	Preferred Series D	10,535,275	$ 1,252	$ 232
Oraya Therapeutics, Inc.	Medical Devices & Equipment	Warrant	Common Stock	95,498	66	23
	Medical Devices & Equipment	Warrant	Preferred Series C	716,948	677	134
Total Oraya Therapeutics, Inc.				812,446	743	157
SonaCare Medical, LLC (pka US HIFU, LLC)	Medical Devices & Equipment	Warrant	Preferred Series A	409,704	188	201
United Orthopedic Group, Inc.	Medical Devices & Equipment	Warrant	Preferred Series A	423,076	608	785
ViewRay, Inc.	Medical Devices & Equipment	Warrant	Preferred Series C	312,500	333	331
Subtotal: Medical Devices & Equipment (0.54%)*					5,610	3,508
Semiconductors						
Achronix Semiconductor Corporation	Semiconductors	Warrant	Preferred Series C	360,000	160	194
SiTime Corporation	Semiconductors	Warrant	Preferred Series G	195,683	24	12
Subtotal: Semiconductors (0.03%)*					184	206

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HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2013

(dollars in thousands)

Portfolio Company	Sub-Industry	Type of Investment[1]	Series	Shares	Cost[2]	Value[3]
Software						
Atrenta, Inc.	Software	Warrant	Preferred Series D	392,670	121	330
Box, Inc.	Software	Warrant	Preferred Series B	271,070	72	4,701
	Software	Warrant	Preferred Series C	199,219	117	3,331
	Software	Warrant	Preferred Series D-1	62,255	194	625
Total Box, Inc.				532,544	383	8,657
Braxton Technologies, LLC	Software	Warrant	Preferred Series A	168,750	187	
Central Desktop, Inc.	Software	Warrant	Preferred Series B	522,769	108	187
Clickfox, Inc.	Software	Warrant	Preferred Series B	1,038,563	330	495
	Software	Warrant	Preferred Series C	592,019	730	363
Total Clickfox, Inc.				1,630,582	1,060	858
Daegis Inc. (pka Unify Corporation)[3]	Software	Warrant	Common Stock	718,860	1,433	83
ForeScout Technologies, Inc.	Software	Warrant	Preferred Series E	80,587	41	82
Hillcrest Laboratories, Inc.	Software	Warrant	Preferred Series E	1,865,650	55	139
Mobile Posse, Inc.	Software	Warrant	Preferred Series C	396,430	130	129
Neos Geosolutions, Inc.	Software	Warrant	Preferred Series 3	221,150	22	
Sonian, Inc.	Software	Warrant	Preferred Series C	185,949	106	105
SugarSync, Inc.	Software	Warrant	Preferred Series CC	332,726	78	48
	Software	Warrant	Preferred Series DD	107,526	34	16
Total Sugarsync, Inc.				440,252	112	64
Touchcommerce, Inc.	Software	Warrant	Preferred Series E	992,595	251	248
White Sky, Inc.	Software	Warrant	Preferred Series B-2	124,295	54	4
WildTangent, Inc.	Software	Warrant	Preferred Series 3	100,000	238	123
Subtotal: Software (1.69%)*					4,301	11,009
Specialty Pharmaceuticals						
QuatRx Pharmaceuticals Company	Specialty Pharmaceuticals	Warrant	Preferred Series E	155,324	307	
Subtotal: Specialty Pharmaceuticals (0.00%)*					307	
Surgical Devices						
Gynesonics, Inc.	Surgical Devices	Warrant	Preferred Series C	180,480	$ 74	$ 27
	Surgical Devices	Warrant	Preferred Series D	1,575,965	320	383
Total Gynesonics, Inc.				1,756,445	394	410

Transmedics, Inc.	Surgical Devices	Warrant	Preferred Series B	40,436	225	9
	Surgical Devices	Warrant	Preferred Series D	175,000	100	335
Total Transmedics, Inc.				215,436	325	344
Subtotal: Surgical Devices (0.12%)*					719	754
Total Warrants (5.48%)*					33,606	35,637
Total Investments (140.04%)*					$ 906,297	$ 910,295

* Value as a percent of net assets

(1) Preferred and common stock, warrants, and equity interests are generally non-income producing.

(2) Gross unrealized appreciation, gross unrealized depreciation, and net depreciation for federal income tax purposes totaled $48.8 million, $44.5 million and $4.3 million respectively. The tax cost of investments is $906.2 million

(3) Except for warrants in twenty-five publicly traded companies and common stock in nine publicly traded companies, all investments are restricted at December 31, 2013 and were valued at fair value as determined in good faith by the Valuation Committee of the Board of Directors. No unrestricted securities of the same issuer are outstanding. The Company uses the Standard Industrial Code for classifying the industry grouping of its portfolio companies.

(4) Debt investments of this portfolio company have been pledged as collateral under the Wells Facility.

(5) Non-U.S. company or the company s principal place of business is outside the United States.

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(dollars in thousands)

(6) Affiliate investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 5% but not more than 25% of the voting securities of the company.
(7) Control investment that is defined under the Investment Company Act of 1940 as companies in which HTGC owns at least 25% of the voting securities of the company or has greater than 50% representation on its board.
(8) Debt is on non-accrual status at December 31, 2013, and is therefore considered non-income producing.
(9) Convertible Senior Debt
(10) Indicates assets that the Company deems not qualifying assets under section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company s total assets at the time of acquisition of any additional non-qualifying assets.
(11) Denotes that all or a portion of the debt investment secures the notes offered in the Debt Securitization (as defined in Note 4).
(12) Subsequent to December 31, 2013, this company completed an initial public offering. Note that the December 31, 2013 fair value does not reflect any potential impact of the conversion of our preferred shares to common shares which may include reverse split associated with the offering.
(13) In our quarterly and annual reports filed with the Commission prior to the Annual Report on Form 10-K for the year ended December 31, 2013, we referred to this industry sector as Clean Tech.

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description of Business and Basis of Presentation

Hercules Technology Growth Capital, Inc. (the Company) is a specialty finance company focused on providing senior secured loans to venture capital-backed companies in technology-related markets, including technology, biotechnology, life science, and energy and renewables technology industries at all stages of development. The Company sources its investments through its principal office located in Palo Alto, CA, as well as through its additional offices in Boston, MA, New York, NY and McLean, VA. The Company was incorporated under the General Corporation Law of the State of Maryland in December 2003.

The Company is an internally managed, non-diversified closed-end investment company that has elected to be regulated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). From incorporation through December 31, 2005, the Company was taxed as a corporation under Subchapter C of the Internal Revenue Code of 1986, (the Code). Effective January 1, 2006, the Company has elected to be treated for tax purposes as a regulated investment company, or RIC, under the Code (see Note 5).

Hercules Technology II, L.P. (HT II), Hercules Technology III, L.P. (HT III), and Hercules Technology IV, L.P. (HT IV), are Delaware limited partnerships that were formed in January 2005, September 2009 and December 2010, respectively. HT II and HT III were licensed to operate as small business investment companies (SBICs) under the authority of the Small Business Administration (SBA) on September 27, 2006 and May 26, 2010, respectively. As SBICs, HT II and HT III are subject to a variety of regulations concerning, among other things, the size and nature of the companies in which they may invest and the structure of those investments. HT IV was formed in anticipation of receiving an additional SBIC license; however, the Company has not yet applied for such license, and HT IV currently has no material assets or liabilities. The Company also formed Hercules Technology SBIC Management, LLC, or (HTM), a limited liability company in November 2003. HTM is a wholly owned subsidiary of the Company and serves as the limited partner and general partner of HT II and HT III (see Note 4 to the Company s consolidated financial statements.)

HT II and HT III hold approximately $143.7 million and $290.0 million in assets, respectively, and they accounted for approximately 9.5% and 19.3% of our total assets, respectively, prior to consolidation at March 31, 2014.

The Company also established wholly owned subsidiaries, all of which are structured as Delaware corporations and limited liability companies, to hold portfolio companies organized as limited liability companies, or LLCs (or other forms of pass-through entities). By investing through these wholly owned subsidiaries, the Company is able to benefit from the tax treatment of these entities and create a tax structure that is more advantageous with respect to the Company s RIC status.

The consolidated financial statements include the accounts of the Company, its subsidiaries and its consolidated securitization VIE. All inter-company accounts and transactions have been eliminated in consolidation. In accordance with Article 6 of Regulation S-X under the Securities Act of 1933 and the Securities and Exchange Act of 1934, the Company does not consolidate portfolio company investments. The accompanying consolidated interim financial statements are presented in conformity with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information, and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X under the Securities Act of 1933 and the Securities Exchange Act of 1934. Accordingly, certain disclosures accompanying annual consolidated financial statements prepared in accordance with U.S. GAAP are omitted. In the opinion of management, all adjustments consisting solely of normal recurring accruals considered necessary for the fair presentation of consolidated financial statements for the interim periods have been included. The current period s results of operations are not necessarily indicative of results that ultimately may be achieved for the year. Therefore, the interim unaudited consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the period ended December 31, 2013. The year-end consolidated statement of assets and liabilities data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. Financial statements prepared on a U.S. GAAP basis require management to make estimates and assumptions that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries and all VIEs of which the Company is the primary beneficiary. All intercompany accounts and transactions have been eliminated in consolidation.

A VIE is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. The primary beneficiary of a VIE is the party with both the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and the obligation to absorb the losses or the right to receive benefits that could potentially be significant to the VIE.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact its economic performance, the Company considers all the facts and circumstances including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes identifying the activities that most significantly impact the VIE s economic performance and identifying which party, if any, has power over those activities. In general, the party that makes the most significant decisions affecting the VIE is determined to have the power to direct the activities of a VIE. To assess whether the Company has the obligation to absorb the losses or the right to receive benefits that could potentially be significant to the VIE, the Company considers all of its economic interests, including debt and equity interests, servicing rights and fee arrangements, and any other variable interests in the VIE. If the Company determines that it is the party with the power to make the most significant decisions affecting the VIE, and the Company has a potentially significant interest in the VIE, then it consolidates the VIE.

The Company performs ongoing reassessments, usually quarterly, of whether it is the primary beneficiary of a VIE. The reassessment process considers whether the Company has acquired or divested the power to direct the activities of the VIE through changes in governing documents or other circumstances. The Company also reconsiders whether entities previously determined not to be VIEs have become VIEs, based on certain events, and therefore are subject to the VIE consolidation framework.

As of the date of this report, the only VIE consolidated by the Company is its securitization VIE formed in conjunction with the issuance of the Asset-Backed Notes (See Note 4).

Valuation of Investments

At March 31, 2014, 76.8% of the Company s total assets represented investments in portfolio companies that are valued at fair value by the Board of Directors. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other securities and assets, fair value is as determined in good faith by the Board of Directors. The Company s investments are carried at fair value in accordance with the 1940 Act and Accounting Standards Codification

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topic 820 Fair Value Measurements and Disclosures (ASC 820). The Company s debt securities are primarily invested in venture capital-backed companies in technology-related markets, including technology, biotechnology, life science and energy and renewables technology industries. Given the nature of lending to these types of businesses, substantially all of the Company s investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for these investment securities to be traded or exchanged. As such, the Company values substantially all of its investments at fair value as determined in good faith pursuant to a consistent valuation policy and the Company s Board of Directors in accordance with the provisions of ASC 820 and the 1940 Act. Due to the inherent uncertainty in determining the fair value of investments that do not have a readily available market value, the fair value of the Company s investments determined in good faith by its Board of Directors may differ significantly from the value that would have been used had a readily available market existed for such investments, and the differences could be material.

The Company may from time to time engage an independent valuation firm to provide the Company with valuation assistance with respect to certain portfolio investments on a quarterly basis. The Company intends to continue to engage an independent valuation firm to provide management with assistance regarding the Company s determination of the fair value of selected portfolio investments each quarter unless directed by the Board of Directors to cancel such valuation services. The scope of services rendered by an independent valuation firm is at the discretion of the Board of Directors. The Company s Board of Directors is ultimately and solely responsible for determining the fair value of the Company s investments in good faith.

With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, the Company s Board of Directors has approved a multi-step valuation process each quarter, as described below:

(1) the Company s quarterly valuation process begins with each portfolio company being initially valued by the investment professionals responsible for the portfolio investment;

(2) preliminary valuation conclusions are then documented and business based assumptions are discussed with the Company s investment committee;

(3) the Valuation Committee of the Board of Directors reviews the preliminary valuation of the investments in the portfolio as provided by the investment committee, which incorporates the results of the independent valuation firm as appropriate;

(4) the Board of Directors, upon the recommendation of the Valuation Committee, discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of, where applicable, the respective independent valuation firm and the investment committee.

ASC 820 establishes a framework for measuring the fair value of the assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. ASC 820 also enhances disclosure requirements for fair value measurements based on the level within the hierarchy of the information used in the valuation. ASC 820 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company has categorized all investments recorded at fair value in accordance with ASC 820 based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC 820 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date. The types of assets carried at Level 1 fair value generally are equities listed in active markets.

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Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset in connection with market data at the measurement date and for the extent of the instrument s anticipated life. Fair valued assets that are generally included in this category are warrants held in a public company.

Level 3 Inputs reflect management s best estimate of what market participants would use in pricing the asset at the measurement date. It includes prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Generally, assets carried at fair value and included in this category are the debt investments and warrants and equities held in a private company.

In accordance with ASU 2011-04, the following tables provide quantitative information about the Company s Level 3 fair value measurements of the Company s investments as of March 31, 2014 (unaudited) and December 31, 2013. In addition to the techniques and inputs noted in the tables below, according to the Company s valuation policy the Company may also use other valuation techniques and methodologies when determining the Company s fair value measurements. The below table is not intended to be all-inclusive, but rather provides information on the significant Level 3 inputs as they relate to the Company s fair value measurements.

Investment Type Level Three Debt Investments	Fair Value at March 31, 2014 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input [(a)]	Range	Weighted Average[(b)]
Pharmaceuticals Debt	89,267	Originated Within 6 Months	Origination Yield	9.79% - 16.97%	13.28%
	168,016	Market Comparable Companies	Hypothetical Market Yield	12.70% - 16.97%	14.68%
			Premium/(Discount)	(1.00%) - 0.50%	
Medical Devices Debt	37,326	Originated Within 6 Months	Origination Yield	13.69% - 17.37%	15.22%
	35,362	Market Comparable Companies	Hypothetical Market Yield	14.52% - 17.37%	15.01%
			Premium/(Discount)	(1.00%) - 0.50%	
	4,543	Liquidation	Probability weighting of alternative outcomes	30% - 70%	
Technology Debt	32,946	Originated Within 6 Months	Origination Yield	3.90% - 15.95%	14.17%
	83,091	Market Comparable Companies	Hypothetical Market Yield	12.89% - 19.70%	14.58%
			Premium/(Discount)	0.00% - 1.00%	
	13,933	Liquidation	Probability weighting of alternative outcomes	0.00% - 100.00%	
Energy Technology Debt	52,314	Originated Within 6 Months	Origination Yield	10.81% - 17.29%	13.05%
	102,936	Market Comparable Companies	Hypothetical Market Yield	12.80% - 14.39%	14.83%
			Premium/(Discount)	(0.50%) - 1.00%	
Lower Middle Market Debt	19,383	Originated Within 6 Months	Origination Yield	11.84%	11.84%
	73,973	Market Comparable Companies	Adjusted SMi Leveraged Loan Indices	10.46% - 16.83%	14.19%
			Premium/(Discount)	0.00% - 1.00%	
	7,380	Liquidation	Probability weighting of alternative outcomes	50.00%	
		Debt Investments Where Fair Value Approximates Cost			
	54,203	Imminent Payoffs			
	23,686	Debt Investments Maturing in Less than One Year			
	$ 798,359	Total Level Three Debt Investments			

(a) The significant unobservable inputs used in the fair value measurement of the Company s debt securities are hypothetical market yields and premiums/(discounts). The hypothetical market yield is defined as the exit price of an investment in a hypothetical market to hypothetical market participants where buyers and sellers are willing participants. The premiums (discounts) relate to company specific characteristics such as underlying investment performance, security liens, and other characteristics of the investment. Significant increases (decreases) in the inputs in isolation would result in a significantly lower (higher) fair value measurement, depending on the materiality of the investment. Debt investments in the industries noted in the Company s Consolidated Schedule of Investments are included in the industries note above as follows:

Pharmaceuticals, above, is comprised of debt investments in the Therapeutic, Specialty Pharmaceuticals, Drug Discovery and Development, Drug Delivery, and Diagnostics and Biotechnology industries in the Schedule of Investments.

Medical Devices, above, is comprised of debt investments in the Therapeutic, Surgical Devices, Medical Devices and Equipment and Biotechnology Tools industries in the Schedule of Investments.

Technology, above, is comprised of debt investments in the Software, Semiconductors, Internet Consumer and Business Services, Information Services, and Communications and Networking industries in the Schedule of Investments.

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Lower Middle Market, above, is comprised of debt investments in the Communications and Networking, Electronics and Computer Hardware, Healthcare Services - Other, Information Services, Internet Consumer and Business Services, Media/Content/Info, and Specialty Pharmaceuticals industries in the Schedule of Investments.

Energy Technology, above, aligns with the Energy Technology Industry in the Schedule of Investments.

(b) The weighted averages are calculated based on the fair market value of each investment.

Investment Type Level Three Debt Investments	Fair Value at December 31, 2013 *(in thousands)*	Valuation Techniques/ Methodologies	Unobservable Input [(a)]	Range	Weighted Average [(c)]
Pharmaceuticals Debt	25,811	Originated Within 6 Months	Origination Yield	12.56% - 14.53%	13.36%
	250,607	Market Comparable Companies	Hypothetical Market Yield	13.83% - 15.47%	14.13%
			Premium/(Discount)	(1.00%) - 0.00%	
Medical Devices Debt	46,900	Originated Within 6 Months	Origination Yield	13.54% - 17.37%	14.87%
	34,723	Market Comparable Companies	Hypothetical Market Yield	14.32% - 17.37%	15.23%
			Premium/(Discount)	(1.00%) - 1.00%	
Technology Debt	18,796	Originated Within 6 Months	Origination Yield	10.62% - 15.97%	14.26%
	98,290	Market Comparable Companies	Hypothetical Market Yield	14.72% - 21.08%	15.48%
			Premium/(Discount)	0.00% - 1.00%	
	1,643	Liquidation	Probability weighting of alternative outcomes	30.00% - 70.00%	
Energy Technology Debt	32,597	Originated Within 6 Months	Origination Yield	14.68% - 15.87%	15.17%
	108,238	Market Comparable Companies	Hypothetical Market Yield	15.37%	15.37%
			Premium/(Discount)	(0.50%) - 1.50%	
Lower Middle Market Debt	121,347	Market Comparable Companies	Hypothetical Market Yield	14.83% - 19.73%	16.12%
			Premium/(Discount)	0.00% - 1.00%	
	31,818	Broker Quote [(b)]	Price Quotes	99.50% - 100.25% of par	
			Par Value	$2.0 - $22.5 million	
	12,576	Liquidation	Probability weighting of alternative outcomes	20.00% - 80.00%	
		Debt Investments Where Fair Value Approximates Amortized Cost			
	15,906	Imminent Payoffs			
	22,236	Debt Investments Maturing in Less than One Year			
	500	Convertible Debt at Par			
	$ 821,988	Total Level Three Debt Investments			

(a) The significant unobservable inputs used in the fair value measurement of the Company s securities are hypothetical market yields and premiums/(discounts). The hypothetical market yield is defined as the exit price of an investment in a hypothetical market to hypothetical market participants where buyers and sellers are willing participants. The premiums (discounts) relate to company specific characteristics such as underlying investment performance, security liens, and other characteristics of the investment. Significant increases (decreases) in the inputs in isolation would result in a significantly lower (higher) fair value measurement, depending on the materiality of the investment. Debt investments in the industries noted in the Company s Consolidated Schedule of Investments are included in the industries note above as follows:

Pharmaceuticals, above, is comprised of debt investments in the Therapeutic, Specialty Pharmaceuticals, Drug Discovery and Development, Drug Delivery, and Diagnostics and Biotechnology industries in the Schedule of Investments.

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Medical Devices, above, is comprised of debt investments in the Therapeutic, Surgical Devices, Medical Devices and Equipment and Biotechnology Tools industries in the Schedule of Investments.

Technology, above, is comprised of debt investments in the Software, Semiconductors, Internet Consumer and Business Services, Information Services, and Communications and Networking industries in the Schedule of Investments.

Lower Middle Market, above, is comprised of debt investments in the Communications and Networking, Electronics and Computer Hardware, Healthcare Services - Other, Information Services, Internet Consumer and Business Services, Media/Content/Info, and Specialty Pharmaceuticals industries in the Schedule of Investments.

Energy Technology, above, aligns with the Energy Technology Industry in the Schedule of Investments. In our quarterly and annual reports filed with the Commission prior to the 2013 Annual Report on Form 10-K, we referred to the Energy Technology Industry as Clean Tech and we referred to these investments as Clean Tech in the Schedule of Investments included in such reports.

(b) A broker quote valuation technique was used to derive the fair value of debt investments which are part of a syndicated facility.
(c) The weighted averages are calculated based on the fair market value of each investment.

Investment Type	Fair Value at March 31, 2014 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input[a]	Range
Level Three Equity Investments	$ 9,961	Market Comparable Companies	EBITDA Multiple [b]	6.9x - 14.0x
			Revenue Multiple [b]	1.1x - 4.8x
			Discount for Lack of Marketability [c]	11.70% - 31.90%
			Average Industry Volatility [d]	39.32% - 99.82%
			Risk-Free Interest Rate	0.16% - 0.42%
			Estimated Time to Exit (in months)	14 - 26
	9,895	Market Adjusted OPM Backsolve	Average Industry Volatility [d]	38.04% - 81.35%
			Risk Free Interest Rate	0.21% - 0.88%
			Estimated Time to Exit (in months)	18 - 39
	28,123	Other	Last Round Price	$2.02 - $18.00
Level Three Warrant Investments	$ 9,570	Market Comparable Companies	EBITDA Multiple [b]	3.7x - 32.7x
			Revenue Multiple [b]	0.6x - 11.3x
			Discount for Lack of Marketability [c]	11.70% - 31.60%
			Average Industry Volatility [d]	28.23% - 98.69%
			Risk-Free Interest Rate	0.11% - 1.29%
			Estimated Time to Exit (in months)	12 - 48

		8,731	Market Adjusted OPM Backsolve	Average Industry Volatility [d]	29.88% - 99.56%
				Risk-Free Interest Rate	0.09% - 2.66%
				Estimated Time to Exit (in months)	9 - 45
Total Level Three Warrant and Equity Investments	$	66,280			

(a) The significant unobservable inputs used in the fair value measurement of the Company s warrant and equity-related securities are revenue and/or EBITDA multiples and discounts for lack of marketability. Additional inputs used in the Black Scholes option pricing model include industry volatility, risk free interest rate and estimated time to exit. Significant increases (decreases) in the inputs in isolation would result in a significantly higher (lower) fair value measurement, depending on the materiality of the investment. For some investments, additional consideration may be given to data from the last round of financing or merger/acquisition events near the measurement date.
(b) Represents amounts used when the Company has determined that market participants would use such multiples when pricing the investments.
(c) Represents amounts used when the Company has determined market participants would take into account these discounts when pricing the investments.
(d) Represents the range of industry volatility used by market participants when pricing the investment.

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Investment Type-		Fair Value at December 31, 2013 (in thousands)	Valuation Techniques/ Methodologies	Unobservable Input[(a)]	Range
Level Three Equity Investments	$	10,244	Market Comparable Companies	EBITDA Multiple[(b)]	8.6x - 17.7x
				Revenue Multiple[(b)]	0.7x - 13.8x
				Discount for Lack of Marketability[(c)]	9.1% - 23.6%
				Average Industry Volatility[(d)]	43.4% - 110.7%
				Risk-Free Interest Rate	0.1% - 0.4%
				Estimated Time to Exit (in months)	6 - 30
		9,289	Market Adjusted OPM	Average Industry Volatility[(d)]	45.6% - 109.7%
			Backsolve		
				Risk-Free Interest Rate	0.1% - 0.9%
				Estimated Time to Exit (in months)	6 - 42
		18,127	Other	Average Industry Volatility[(d)]	44.0%
				Risk-Free Interest Rate	0.1%
				Estimated Time to Exit (in months)	12
Level Three Warrant Investments	$	10,200	Market Comparable Companies	EBITDA Multiple[(b)]	5.0x - 51.4x
				Revenue Multiple[(b)]	0.5x - 13.8x
				Discount for Lack of Marketability[(c)]	6.4% - 36.0%
				Average Industry Volatility[(d)]	21.3% - 110.7%
				Risk-Free Interest Rate	0.1% - 1.0%
				Estimated Time to Exit (in months)	6 - 48
		8,913	Market Adjusted OPM	Average Industry Volatility[(d)]	35.7% - 109.9%
			Backsolve		
				Risk-Free Interest Rate	0.1% - 2.7%
				Estimated Time to Exit (in months)	3 - 48
		9,595	Other	Average Industry Volatility[(d)]	44.0% - 56.9%
				Risk-Free Interest Rate	0.1% - 1.0%
				Estimated Time to Exit (in months)	12 - 48
Total Level Three Warrant and Equity Investments	$	66,368			

(a) The significant unobservable inputs used in the fair value measurement of the Company s warrant and equity-related securities are revenue and/or EBITDA multiples and discounts for lack of marketability. Additional inputs used in the Black Scholes option pricing model include industry volatility, risk free interest rate and estimated time to exit. Significant increases (decreases) in the inputs in isolation would result in a significantly higher (lower) fair value measurement, depending on the materiality of the investment. For some investments, additional consideration may be given to data from the last round of financing or merger/acquisition events near the measurement date.
(b) Represents amounts used when the Company has determined that market participants would use such multiples when pricing the investments.
(c) Represents amounts used when the Company has determined market participants would take into account these discounts when pricing the investments.
(d) Represents the range of average industry volatility used by market participants when pricing the investment.

Debt Investments

The Company follows the guidance set forth in ASC 820 which establishes a framework for measuring the fair value of assets and liabilities and outlines a fair value hierarchy which prioritizes the inputs used to measure fair value and the effect of fair value measures on earnings. The Company s debt securities are primarily invested in venture capital-backed companies in technology- related markets, including technology, biotechnology, life

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science and energy and renewables technology industries. Given the nature of lending to these types of businesses, the Company s investments in these portfolio companies are considered Level 3 assets under ASC 820 because there is no known or accessible market or market indexes for debt instruments for these investment securities to be traded or exchanged.

In making a good faith determination of the value of our investments, the Company generally starts with the cost basis of the investment, which includes the value attributed to the OID, if any, and PIK interest or other receivables which have been accrued to principal as earned. The Company then applies the valuation methods as set forth below.

The Company applies a procedure that assumes a sale of investment in a hypothetical market to a hypothetical market participant where buyers and sellers are willing participants. The hypothetical market does not include scenarios where the underlying security was simply repaid or extinguished, but includes an exit concept. Under this process, the Company also evaluates the collateral for recoverability of the debt investments as well as applies all of its historical fair value analysis. The Company uses pricing on recently issued comparable debt securities to determine the baseline hypothetical market yields as of the measurement date.

The Company considers each portfolio company s credit rating, security liens and other characteristics of the investment to adjust the baseline yield to derive a hypothetical yield for each investment as of the measurement date. The anticipated future cash flows from each investment are then discounted at the hypothetical yield to estimate each investment s fair value as of the measurement date.

The Company s process includes, among other things, the underlying investment performance, the current portfolio company s financial condition and market changing events that impact valuation, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. The Company values its syndicated debt investments using broker quotes and bond indices amongst other factors. If there is a significant deterioration of the credit quality of a debt investment, the Company may consider other factors to estimate fair value, including the proceeds that would be received in a liquidation analysis.

The Company records unrealized depreciation on investments when it believes that an investment has decreased in value, including where collection of a debt investment is doubtful or, if under the in-exchange premise, when the value of a debt security was to be less than amortized cost of the investment. Conversely, where appropriate, the Company records unrealized appreciation if it believes that the underlying portfolio company has appreciated in value and, therefore, that its investment has also appreciated in value or, if under the in-exchange premise, the value of a debt security were to be greater than amortized cost.

When originating a debt instrument, the Company generally receives warrants or other equity-related securities from the borrower. The Company determines the cost basis of the warrants or other equity-related securities received based upon their respective fair values on the date of receipt in proportion to the total fair value of the debt investment and warrants or other equity-related securities received. Any resulting discount on the debt investment from recordation of the warrant or other equity instruments is accreted into interest income over the life of the loan.

Equity-Related Securities and Warrants

Securities that are traded in the over-the-counter markets or on a stock exchange will be valued at the prevailing bid price at period end. The Company has a limited number of equity securities in public companies. In accordance with the 1940 Act, unrestricted publicly traded securities for which market quotations are readily available are valued at the closing market quote on the measurement date.

The Company estimates the fair value of warrants using a Black Scholes pricing model. At each reporting date, privately held warrant and equity-related securities are valued based on an analysis of various factors including, but not limited to, the portfolio company s operating performance and financial condition and general market conditions, price to enterprise value or price to equity ratios, discounted cash flow, valuation comparisons to comparable public companies or other industry benchmarks. When an external event occurs, such as a purchase transaction, public offering, or subsequent equity sale, the pricing indicated by that external event is utilized to corroborate the Company s valuation of the warrant and equity-related securities. The Company periodically reviews the valuation of its portfolio companies that have not been involved in a qualifying external event to determine if the enterprise value of the portfolio company may have increased or decreased since the last valuation measurement date.

Investments measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations as of March 31, 2014 (unaudited) and as of December 31, 2013. The Company transfers investments in and out of Level 1, 2 and 3 securities as of the beginning balance sheet date, based on changes in the use of observable and unobservable inputs utilized to perform the valuation for the period. During the three-months ended March 31, 2014, there were no transfers between Levels 1 or 2.

(in thousands)		Investments at Fair Value as of March 31, 2014		
Description	3/31/2014	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior secured debt	$ 798,359	$	$	$ 798,359
Preferred stock	45,723			45,723
Common stock	22,966	20,710		2,256
Warrants	23,614		5,313	18,301
	$ 890,662	$ 20,710	$ 5,313	$ 864,639

(in thousands)		Investments at Fair Value as of December 31, 2013		
Description	12/31/2013	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Senior secured debt	$ 821,988	$	$	$ 821,988
Preferred stock	35,554			35,554
Common stock	17,116	15,009		2,107
Warrants	35,637		6,930	28,707
	$ 910,295	$ 15,009	$ 6,930	$ 888,356

The table below presents reconciliation for all financial assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for the three-months ended March 31, 2014 (unaudited) and year ended December 31, 2013.

(in thousands)	Balance, January 1, 2014	Net Realized Losses[1]	Net Change in Unrealized Appreciation (Depreciation)[2]	Purchases	Sales	Repayments	Gross Transfers into Level 3[3]	Gross Transfers out of Level 3[3]	Balance, March 31, 2014
Senior Debt	$ 821,988	$	$ (2,724)	$ 114,283	$	$ (134,449)	$	$ (739)	$ 798,359

Preferred Stock	35,554	(250)	8,699	2,433	(503)		1,270	(1,480)	45,723
Common Stock	2,107		149						2,256
Warrants	28,707	(125)	(8,606)	656	(548)			(1,783)	18,301
Total	$ 888,356	$ (375)	$ (2,482)	$ 117,372	$ (1,051)	$ (134,449)	$ 1,270	$ (4,002)	$ 864,639

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(in thousands)	Balance, January 1, 2013	Net Realized Gains (Losses)(1)	Net Change in Unrealized Appreciation (Depreciation)(2)	Purchases	Sales	Repayments	Gross Transfers into Level 3(4)	Gross Transfers out of Level 3(4)	Balance, December 31, 2013
Senior Debt	$ 827,540	$ (9,536)	$ (8,208)	$ 484,367	$ (8)	$ (469,780)	$ 769	$ (3,156)	$ 821,988
Preferred Stock	33,178	7,968	7,682	6,198	(18,572)		776	(1,676)	35,554
Common Stock	2,367		(1,103)	750			93		2,107
Warrants	22,140	5,257	6,173	6,524	(10,350)			(1,037)	28,707
Total	$ 885,225	$ 3,689	$ 4,544	$ 497,839	$ (28,930)	$ (469,780)	$ 1,638	$ (5,869)	$ 888,356

(1) Includes net realized gains (losses) recorded as realized gains or losses in the accompanying consolidated statements of operations.
(2) Included in change in net unrealized appreciation (depreciation) in the accompanying consolidated statements of operations.
(3) Transfers in/out of Level 3 during the three-months ended March 31, 2014 relate to the conversion of Paratek Pharmaceuticals, Inc. and SCI Energy, Inc. debt to equity, the exercise of warrants in Box, Inc. equity and the initial public offerings of Concert Pharmaceuticals, Inc., Dicerna Pharmaceuticals, Inc., Everyday Health, Inc., Revance Therapeutics, Inc., and UniQure BV.
(4) Transfers in/out of Level 3 during the year ended December 31, 2013 relate to the conversion of Optiscan BioMedical, Inc., Gynesonics, Inc., Philotic, Inc., and Tethys BioScience, Inc. debt to equity, the conversion of OCZ Technology warrants to principal and the initial public offerings of Portola Pharmaceuticals, Inc., Acceleron Pharma, Inc., Bind, Inc., and ADMA Biologics, Inc.

For the three-months ended March 31, 2014, approximately $8.2 million and $149,000 in net unrealized appreciation was recorded for preferred stock and common stock Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately $814,000 and $2.7 million in net unrealized depreciation was recorded for warrant and debt Level 3 investments respectively relating to assets still held at the reporting date.

For the year ended December 31, 2013, approximately $4.4 million and $4.1 million in net unrealized appreciation was recorded for preferred stock and warrant Level 3 investments, respectively, relating to assets still held at the reporting date. For the same period, approximately $8.2 million and $1.1 million in net unrealized depreciation was recorded for debt and common stock Level 3 investments, respectively, relating to assets still held at the reporting date.

As required by the 1940 Act, the Company classifies its investments by level of control. Control investments are defined in the 1940 Act as investments in those companies that the Company is deemed to control . Generally, under the 1940 Act, the Company is deemed to control a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board. Affiliate investments are investments in those companies that are affiliated companies of the Company, as defined in the 1940 Act, which are not control investments. The Company is deemed to be an affiliate of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company. Non-control/non-affiliate investments are investments that are neither control investments nor affiliate investments.

The following table summarizes our realized and unrealized gain and loss and changes in our unrealized appreciation and depreciation on affiliate investments for the three-months ended March 31, 2014 and 2013 (unaudited). The Company did not hold any Control investments at either March 31, 2014 or 2013.

(in thousands)		Three months ended March 31, 2014				
Portfolio Company	Type	Fair Value at March 31, 2014	Investment Income	Net Change in Unrealized (Depreciation)/ Appreciation	Reversal of Unrealized (Depreciation)/ Appreciation	Realized Gain/ (Loss)
Gelesis, Inc.	Affiliate	$ 497	$	$ 24	$	$
Optiscan BioMedical, Corp.	Affiliate	5,032		247		
Stion Corporation	Affiliate	5,664	1,475	(224)		

Total	$	11,193	$	1,475	$	47	$		$

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(in thousands)		Three months ended March 31, 2013				
Portfolio Company	**Type**	**Fair Value at March 31, 2013**	**Investment Income**	**Net Change in Unrealized (Depreciation)/ Appreciation**	**Reversal of Unrealized (Depreciation)/ Appreciation**	**Realized Gain/ (Loss)**
Gelesis, Inc.	Affiliate	$ 1,888	$	$ 222	$	$
Optiscan BioMedical, Corp.	Affiliate	12,308	610	212		
Total		$ 14,196	$ 610	$ 434	$	$

During the year ended December 31, 2013, Stion Corporation became classified as an affiliate.

A summary of the composition of the Company s investment portfolio as of March 31, 2014 (unaudited) and December 31, 2013 at fair value is shown as follows:

	March 31, 2014		December 31, 2013	
(in thousands)	**Investments at Fair Value**	**Percentage of Total Portfolio**	**Investments at Fair Value**	**Percentage of Total Portfolio**
Senior secured debt with warrants	$ 500,899	56.2%	$ 634,820	69.7%
Senior secured debt	321,074	36.0%	222,805	24.5%
Preferred stock	45,723	5.1%	35,554	3.9%
Common Stock	22,966	2.7%	17,116	1.9%
	$ 890,662	100.0%	$ 910,295	100.0%

The decline in senior secured debt with warrants is consistent with the overall decline in the investment portfolio at March 31, 2014 from December 31, 2013 and the increase in senior secured debt is due to the addition of seven new debt investments in the three-months ended March 31, 2014 partially offset by the payoff of two existing debt investments included in the period ended December 31, 2013.

A summary of the Company s investment portfolio, at value, by geographic location as of March 31, 2014 (unaudited) and December 31, 2013 is shown as follows:

	March 31, 2014		December 31, 2013	
(in thousands)	**Investments at Fair Value**	**Percentage of Total Portfolio**	**Investments at Fair Value**	**Percentage of Total Portfolio**
United States	$ 843,941	94.8%	$ 864,003	94.9%
Canada	26,201	2.9%	25,798	2.8%
Israel	10,012	1.1%	9,863	1.1%
Netherlands	10,008	1.1%	10,131	1.1%
England	500	0.1%	500	0.1%
	$ 890,662	100.0%	$ 910,295	100.0%

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The following table shows the fair value the Company s portfolio by industry sector at March 31, 2014 (unaudited) and December 31, 2013:

	March 31, 2014		December 31, 2013	
(in thousands)	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
Drug Discovery & Development	$ 206,535	23.2%	$ 219,169	24.1%
Energy Technology	166,482	18.7%	164,466	18.1%
Internet Consumer & Business Services	105,964	11.9%	122,073	13.4%
Medical Devices & Equipment	99,061	11.1%	103,614	11.4%
Software	79,077	8.9%	65,218	7.2%
Drug Delivery	63,335	7.1%	62,022	6.8%
Specialty Pharmaceuticals	40,217	4.5%	20,055	2.2%
Communications & Networking	35,526	4.0%	35,979	4.0%
Media/Content/Info	29,447	3.3%	8,679	1.0%
Healthcare Services, Other	20,626	2.3%	29,080	3.2%
Information Services	15,102	1.7%	46,565	5.1%
Surgical Devices	10,353	1.1%	10,307	1.0%
Semiconductors	9,464	1.1%	4,685	0.5%
Biotechnology Tools	4,541	0.5%	5,275	0.6%
Consumer & Business Products	3,282	0.4%	2,995	0.3%
Diagnostic	858	0.1%	902	0.1%
Electronics & Computer Hardware	792	0.1%	9,211	1.0%
	$ 890,662	100.0%	$ 910,295	100.0%

During the three-months ended March 31, 2014, the Company funded investments in debt securities and equity investments totaling approximately $110.4 million and $1.5 million, respectively. The Company converted approximately $2.0 million of warrants to equity in three portfolio companies during the three-months ended March 31, 2014.

During the three-months ended March 31, 2013, the Company funded investments in debt securities and equity investments totaling approximately $136.3 million and $2.0 million, respectively. The Company converted approximately $836,000 of debt to equity in three portfolio companies during the three-months ended March 31, 2013.

No single portfolio investment represents more than 10% of the fair value of the investments as of March 31, 2014 and December 31, 2013.

During the three-month periods ended March 31, 2014, we recognized net realized gains of approximately $4.9 million. These net realized gains include gross realized gains of approximately $5.4 million primarily from the sale of investments in five portfolio companies, including Cell Therapeutics ($1.3 million), Neuralstem ($1.2 million), Portola Pharmaceuticals ($700,000), AcelRx ($485,000) and Dicerna ($200,000). These gains were partially offset by gross realized losses of approximately $500,000 from the liquidation of the Company s investments in five portfolio companies.

During the three-month period ended March 31, 2013, the Company recognized net realized gains of approximately $2.0 million on the portfolio. During the three-month period ended March 31, 2013, the Company recorded gross realized gains of approximately $3.6 million from the sale of investments in three portfolio companies. These gains were partially offset by the liquidation of the Company s investments in five portfolio companies of approximately $1.6 million in gross realized losses.

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Loan origination and commitment fees received in full at the inception of a loan are deferred and amortized into fee income as an enhancement to the related loan s yield over the contractual life of the loan. Loan exit fees to be paid at the termination of the loan are accreted into interest income over the contractual life of the loan. The Company had approximately $3.9 million and $4.0 million of unamortized fees at March 31, 2014 and December 31, 2013, respectively, and approximately $14.6 million and $14.4 million in exit fees receivable at March 31, 2014 and December 31, 2013, respectively.

The Company has debt investments in its portfolio that contain a payment-in-kind (PIK) provision. The PIK interest, computed at the contractual rate specified in each loan agreement, is added to the principal balance of the loan and recorded as interest income. To maintain the Company s status as a RIC, this non-cash source of income must be paid out to stockholders in the form of dividends even though the Company has not yet collected the cash. Amounts necessary to pay these dividends may come from available cash or the liquidation of certain investments. The Company recorded approximately $852,000 and $779,000 in PIK income during the three-months ended March 31, 2014 and 2013, respectively.

In certain investment transactions, the Company may provide advisory services. For services that are separately identifiable and external evidence exists to substantiate fair value, income is recognized as earned, which is generally when the investment transaction closes. The Company had no income from advisory services in the three-month periods ended March 31, 2014 and 2013.

In the majority of cases, the Company collateralizes its investments by obtaining a first priority security interest in a portfolio company s assets, which may include its intellectual property. In other cases, the Company may obtain a negative pledge covering a company s intellectual property. At March 31, 2014, approximately 61.5% of our portfolio company debt investments were secured by a first priority security in all of the assets of the portfolio company, including their intellectual property, and 38.5% of the debt investments were to portfolio companies that were prohibited from pledging or encumbering their intellectual property. At March 31, 2014 the Company had no equipment only liens on any of our portfolio companies.

3. Fair Value of Financial Instruments

Fair value estimates are made at discrete points in time based on relevant information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. The Company believes that the carrying amounts of its financial instruments, consisting of cash and cash equivalents, receivables, accounts payable and accrued liabilities, approximate the fair values of such items due to the short maturity of such instruments. The Convertible Senior Notes, 2019 Notes payable (the April 2019 Notes and the September 2019 Notes , together the 2019 Notes), the Asset-Backed Notes and the SBA debentures as sources of liquidity remain a strategic advantage due to their flexible structure, long-term duration, and low fixed interest rates. At March 31, 2014, the April 2019 Notes were trading on the New York Stock Exchange for $1.035 per dollar at par value, and the September 2019 Notes were trading on the New York Stock Exchange for $1.030 per dollar at par value. Based on market quotations on or around March 31, 2014, the Convertible Senior Notes were trading for $1.213 per dollar at par value and the Asset-Backed Notes were trading for $1.003 per dollar at par value. Calculated based on the net present value of payments over the term of the notes using estimated market rates for similar notes and remaining terms, the fair value of the SBA debentures would be approximately $194.1 million, compared to the carrying amount of $190.2 million as of March 31, 2014.

See the accompanying Consolidated Schedule of Investments for the fair value of the Company s investments. The methodology for the determination of the fair value of the Company s investments is discussed in Note 2.

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The liabilities of the Company below are recorded at amortized cost and not at fair value on the Consolidated Statement of Assets and Liabilities. The following table provides additional information about the level in the fair value hierarchy of the Company s liabilities at March 31, 2014 (unaudited) and December 31, 2013:

(in thousands) Description	March 31, 2014	Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Convertible Senior Notes	$ 90,938	$	$ 90,938	$
Asset Backed Notes	$ 63,981	$	$	$ 63,981
April 2019 Notes	$ 87,430	$	$ 87,430	$
September 2019 Notes	$ 88,451	$	$ 88,451	$
SBA Debentures	$ 194,128	$	$	$ 194,128

(in thousands) Description	December 31, 2013	Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Convertible Senior Notes	$ 105,206	$	$ 105,206	$
Asset Backed Notes	$ 89,893	$	$	$ 89,893
April 2019 Notes	$ 86,281	$	$ 86,281	$
September 2019 Notes	$ 87,248	$	$ 87,248	$
SBA Debentures	$ 222,742	$	$	$ 222,742

4. Borrowings Long Term

Outstanding Borrowings

At March 31, 2014 (unaudited) and December 31, 2013, the Company had the following available borrowings and outstanding borrowings:

	March 31, 2014		December 31, 2013	
(in thousands)	Total Available	Carrying Value(1)	Total Available	Carrying Value(1)
SBA Debentures(2)	$ 190,200	$ 190,200	$ 225,000	$ 225,000
2019 Notes	170,364	170,364	170,364	170,364
Asset-Backed Notes	63,782	63,782	89,557	89,557
Convertible Senior Notes(3)	75,000	72,789	75,000	72,519
Wells Facility	75,000		75,000	
Union Bank Facility	30,000		30,000	
Total	$ 604,346	$ 497,135	$ 664,921	$ 557,440

(1) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding.

(2) In March 2014, the Company repaid $34.8 million of SBA debentures under HT II, priced at approximately 6.38%, including annual fees. At March 31, 2014, the total available borrowings under the SBA was $190.2 million, of which $41.2 million was available in HT II and $149.0 million was available in HT III. At December 31, 2013, the total available borrowings under the SBA was $225.0 million, of which $76.0 million was available in HT II and $149.0 million was available in HT III.

(3) Represents the aggregate principal amount outstanding of the Convertible Senior Notes less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was $2.2 million at March 31, 2014 and $2.5 million at December 31, 2013.

Long-Term SBA Debentures

On September 27, 2006, HT II received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and regulatory capital. Under the Small Business Investment Company Act and current SBA policy applicable to SBICs, a SBIC can have outstanding at any time SBA guaranteed debentures up to twice the amount of its regulatory capital. With the Company s net investment of

$38.0 million in HT II as of March 31, 2014, HT II has the capacity to issue a total of $76.0 million of SBA guaranteed debentures, subject to SBA approval, of which $41.2 million was available at March 31, 2014. As of March 31, 2014, HT II has paid the SBA commitment fees and facility fees of approximately $1.5 million and $3.6 million, respectively. As of March 31, 2014 the Company held investments in HT II in 41 companies with a fair value of approximately $98.9 million, accounting for approximately 11.1% of the Company s total portfolio at March 31, 2014.

On May 26, 2010, HT III received a license to operate as a SBIC under the SBIC program and is able to borrow funds from the SBA against eligible investments and additional contributions to regulatory capital. With the Company s net investment of $74.5 million in HT III as of March 31, 2014, HT III has the capacity to issue a total of $149.0 million of SBA guaranteed debentures, of which $149.0 million was outstanding as of March 31, 2014. As of March 31, 2014, HT III has paid commitment fees and facility fees of approximately $1.5 million and $3.6 million, respectively. As of March 31, 2014, the Company held investments in HT III in 31 companies with a fair value of approximately $178.5 million accounting for approximately 20.0% of the Company s total portfolio at March 31, 2014.

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding $18.0 million and have average annual fully taxed net income not exceeding $6.0 million for the two most recent fiscal years. In addition, SBICs must devote 25.0% of its investment activity to smaller enterprises as defined by the SBA. A smaller enterprise is one that has a tangible net worth not exceeding $6.0 million and has average annual fully taxed net income not exceeding $2.0 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services. Through its wholly-owned subsidiaries HT II and HT III, the Company plans to provide long-term loans to qualifying small businesses, and in connection therewith, make equity investments.

HT II and HT III are periodically examined and audited by the SBA s staff to determine their compliance with SBA regulations. If HT II or HT III fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit HT II s or HT III s use of debentures, declare outstanding debentures immediately due and payable, and/or limit HT II or HT III from making new investments. In addition, HT II or HT III may also be limited in their ability to make distributions to the Company if they do not have sufficient capital in accordance with SBA regulations. Such actions by the SBA would, in turn, negatively affect the Company because HT II and HT III are the Company s wholly owned subsidiaries. HT II and HT III were in compliance with the terms of the SBIC s leverage as of March 31, 2014 as a result of having sufficient capital as defined under the SBA regulations.

The rates of borrowings under various draws from the SBA beginning in March 2009 are set semiannually in March and September and range from 2.25% to 4.62%. Interest payments on SBA debentures are payable semiannually. There are no principal payments required on these issues prior to maturity and no prepayment penalties. Debentures under the SBA generally mature ten years after being borrowed. Based on the initial draw down date of March 2009, the initial maturity of SBA debentures will occur in March 2019. In addition, the SBA charges a fee that is set annually, depending on the Federal fiscal year the leverage commitment was delegated by the SBA, regardless of the date that the leverage was drawn by the SBIC. The annual fees related to HT II debentures that pooled on September 22, 2010 were 0.406% and 0.285%, depending upon the year in which the underlying commitment was closed. The annual fees on other debentures have been set at 0.906%. The annual fees related to HT III debentures that pooled on March 27, 2013 were 0.804%. The annual fees on other debentures have been set at 0.515%. The average amount of debentures outstanding for the three-months ended March 31, 2014 for HT II was approximately $63.6 million with an average interest rate of approximately 5.31%. The average amount of debentures outstanding for the three-months ended March 31, 2014 for HT III was approximately $149.0 million with an average interest rate of approximately 3.38%.

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As of March 31, 2014, the maximum statutory limit on the dollar amount of combined outstanding SBA guaranteed debentures is $225.0 million, subject to periodic adjustments by the SBA. In aggregate, at March 31, 2014, with the Company s net investment of $112.5 million, HT II and HT III have the capacity to issue a total of $225.0 million of SBA-guaranteed debentures, subject to SBA approval. In March 2014, the Company repaid $34.8 million of SBA debentures under HT II, priced at approximately 6.38%, including annual fees. At March 31, 2014, the Company has issued $190.2 million in SBA-guaranteed debentures in the Company s SBIC subsidiaries.

The Company reported the following SBA debentures outstanding as of March 31, 2014 (unaudited) and December 31, 2013:

(in thousands) Issuance/Pooling Date	Maturity Date	Interest Rate(1)	March 31, 2014	December 31, 2013
SBA Debentures:				
March 26, 2008	March 1, 2018	6.38%	$	$ 34,800
March 25, 2009	March 1, 2019	5.53%	18,400	18,400
September 23, 2009	September 1, 2019	4.64%	3,400	3,400
September 22, 2010	September 1, 2020	3.62%	6,500	6,500
September 22, 2010	September 1, 2020	3.50%	22,900	22,900
March 29, 2011	March 1, 2021	4.37%	28,750	28,750
September 21, 2011	September 1, 2021	3.16%	25,000	25,000
March 21, 2012	March 1, 2022	3.28%	25,000	25,000
March 21, 2012	March 1, 2022	3.05%	11,250	11,250
September 19, 2012	September 1, 2022	3.05%	24,250	24,250
March 27, 2013	March 1, 2023	3.16%	24,750	24,750
Total SBA Debentures			**$ 190,200**	**$ 225,000**

(1) Interest rate includes annual charge

2019 Notes

On March 6, 2012, the Company and U.S. Bank National Association (the Trustee) entered into an indenture (the Base Indenture). On April 17, 2012, the Company and the Trustee entered into the First Supplemental Indenture to the Base Indenture (the First Supplemental Indenture), dated April 17, 2012, relating to the Company s issuance, offer and sale of $43.0 million aggregate principal amount of 7.00% senior notes due 2019 (the April 2019 Notes). The sale of the April 2019 Notes generated net proceeds, before expenses, of approximately $41.7 million.

On September 24, 2012, the Company and the Trustee, entered into the Second Supplemental Indenture to the Base Indenture (the Second Supplemental Indenture), dated as of September 24, 2012, relating to the Company s issuance, offer and sale of $75.0 million aggregate principal amount of 7.00% senior notes due 2019 (the September 2019 Notes and, together with the April 2019 Notes, the 2019 Notes). The sale of the September 2019 Notes generated net proceeds, before expenses, of approximately $72.75 million.

2019 Notes payable is compromised of:

	As of	
(in thousands)	**March 31, 2014**	**December 31, 2013**
April 2019 Notes	$ 84,490	$ 84,490
September 2019 Notes	85,874	85,874
Carrying Value of Debt	$ 170,364	$ 170,364

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April 2019 Notes

The April 2019 Notes will mature on April 30, 2019 and may be redeemed in whole or in part at the Company s option at any time or from time to time on or after April 30, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. The April 2019 Notes bear interest at a rate of 7.00% per year payable quarterly on January 30, April 30, July 30 and October 30 of each year, commencing on July 30, 2012, and trade on the New York Stock Exchange under the trading symbol HTGZ.

The April 2019 Notes are the Company s direct unsecured obligations and rank: (i) *pari passu* with the Company s other outstanding and future senior unsecured indebtedness, including without limitation, the $75.0 million in aggregate principal amount of the Convertible Senior Notes; (ii) senior to any of the Company s future indebtedness that expressly provides it is subordinated to the April 2019 Notes; (iii) effectively subordinated to all the Company s existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grant security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under the Company s Credit Facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company s subsidiaries, including without limitation, the indebtedness of Hercules Technology II, L.P. and Hercules Technology III, L.P. and borrowings under the Company s revolving senior secured credit facility with Wells Fargo Capital Finance, LLC.

The Base Indenture, as supplemented by the First Supplemental Indenture, contains certain covenants including covenants requiring the Company s compliance with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act and to provide financial information to the holders of the April 2019 Notes and the Trustee if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934. These covenants are subject to important limitations and exceptions that are described in the Indenture, as supplemented by the First Supplemental Indenture. The Indenture provides for customary events of default and further provides that the Trustee or the holders of 25% in aggregate principal amount of the outstanding April 2019 Notes in a series may declare such April 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

The April 2019 Notes were sold pursuant to an underwriting agreement dated April 11, 2012 among the Company and Stifel, Nicolaus & Company, Incorporated, as representative of the several underwriters named in the underwriting agreement.

In July 2012, the Company reopened the Company s April 2019 Notes and issued an additional $41.5 million in aggregate principal amount of April 2019 Notes, which includes exercise of an over-allotment option, bringing the total amount of the April 2019 Notes issued to approximately $84.5 million in aggregate principal amount.

September 2019 Notes

The September 2019 Notes will mature on September 30, 2019 and may be redeemed in whole or in part at the Company s option at any time or from time to time on or after September 30, 2015, upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for

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redemption. The September 2019 Notes bear interest at a rate of 7.00% per year payable quarterly on March 30, June 30, September 30 and December 30 of each year, commencing on December 30, 2012, and trade on the New York Stock Exchange under the trading symbol HTGY.

The September 2019 Notes are the Company s direct unsecured obligations and rank: (i) *pari passu* with the Company s other outstanding and future senior unsecured indebtedness, including without limitation, the $75 million in aggregate principal amount of the Convertible Senior Notes; (ii) senior to any of the Company s future indebtedness that expressly provides it is subordinated to the September 2019 Notes; (iii) effectively subordinated to all the Company s existing and future secured indebtedness (including indebtedness that is initially unsecured to which the Company subsequently grants security), to the extent of the value of the assets securing such indebtedness, including without limitation, borrowings under the Company s credit facilities; (iv) structurally subordinated to all existing and future indebtedness and other obligations of any of the Company s subsidiaries, including without limitation, the indebtedness of Hercules Technology II, L.P. and Hercules Technology III, L.P. and borrowings under the Company s revolving senior secured credit facility with Wells Fargo Capital Finance.

The Base Indenture, as supplemented by the Second Supplemental Indenture, contains certain covenants including covenants requiring the Company to comply with (regardless of whether it is subject to) the asset coverage requirements set forth in Section 18 (a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act to comply with the restrictions on dividends, distributions and purchase of capital stock set forth in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act and to provide financial information to the holders of the September 2019 Notes and the Trustee if the Company should no longer be subject to the reporting requirements under the Securities Exchange Act of 1934. These covenants are subject to important limitations and exceptions that are described in the Indenture, as supplemented by the Second Supplemental Indenture. The Indenture provides for customary events of default and further provides that the Trustee or the holders of 25% in aggregate principal amount of the outstanding September 2019 Notes in a series may declare such September 2019 Notes immediately due and payable upon the occurrence of any event of default after expiration of any applicable grace period.

The September 2019 Notes were sold pursuant to an underwriting agreement dated September 19, 2012 among the Company and Stifel, Nicolaus & Company, Incorporated, as representative of the several underwriters named in the underwriting agreement. In October 2012, the underwriters exercised their over-allotment option for an additional $10.9 million of the September 2019 Notes, bringing the total amount of the September 2019 Notes issued to approximately $85.9 million in aggregate principal amount.

For the three-months ended March 31, 2014 and 2013 (unaudited), the components of interest expense and related fees and cash paid for interest expense for the April 2019 Notes and September 2019 Notes are as follows:

	Three Months Ended March 31,	
(in thousands)	**2014**	**2013**
Stated interest expense	$ 2,981	$ 2,981
Amortization of debt issuance cost	240	240
Total interest expense and fees	$ 3,221	$ 3,221
Cash paid for interest expense and fees	$ 2,981	$ 2,998

As of March 31, 2014, the Company was in compliance with the terms of the indenture, and respective supplemental indenture, governing the April 2019 Notes and September 2019 Notes.

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Asset-Backed Notes

On December 19, 2012, the Company completed a $230.7 million term debt securitization in connection with which an affiliate of the Company s made an offer of $129.3 million in aggregate principal amount of fixed-rate asset-backed notes (the Asset-Backed Notes), which Asset-Backed Notes were rated A2(sf) by Moody s Investors Service, Inc. The Asset-Backed Notes were issued by Hercules Capital Funding Trust 2012-1 pursuant to a note purchase agreement, dated as of December 12, 2012, by and among the Company, Hercules Capital Funding 2012-1 LLC, as Trust Depositor (the Trust Depositor), Hercules Capital Funding Trust 2012-1, as Issuer (the Issuer), and Guggenheim Securities, LLC, as Initial Purchaser, and are backed by a pool of senior loans made to certain of the Company s portfolio companies and secured by certain assets of those portfolio companies and are to be serviced by the Company. Interest on the Asset-Backed Notes will be paid, to the extent of funds available, at a fixed rate of 3.32% per annum. The Asset-Backed Notes have a stated maturity of December 16, 2017.

As part of this transaction, the Company entered into a sale and contribution agreement with the Trust Depositor under which the Company has agreed to sell or have contributed to the Trust Depositor certain senior loans made to certain of the Company s portfolio companies (the Loans). The Company has made customary representations, warranties and covenants in the sale and contribution agreement with respect to the Loans as of the date of their transfer to the Trust Depositor.

In connection with the issuance and sale of the Asset-Backed Notes, the Company has made customary representations, warranties and covenants in the note purchase agreement. The Asset-Backed Notes are secured obligations of the Issuer and are non-recourse to the Company. The Issuer also entered into an indenture governing the Asset-Backed Notes, which indenture includes customary representations, warranties and covenants. The Asset-Backed Notes were sold without being registered under the Securities Act of 1933, as amended (the Securities Act), to qualified institutional buyers in compliance with the exemption from registration provided by Rule 144A under the Securities Act and to institutional accredited investors (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) who in each case, are qualified purchasers for purposes of Section 3(c)(7) under the 1940 Act. In addition, the Trust Depositor entered into an amended and restated trust agreement, which includes customary representation, warranties and covenants.

The Loans are serviced by the Company pursuant to a sale and servicing agreement, which contains customary representations, warranties and covenants. The Company performs certain servicing and administrative functions with respect to the Loans. The Company is entitled to receive a monthly fee from the Issuer for servicing the Loans. This servicing fee is equal to the product of one-twelfth (or in the case of the first payment date, a fraction equal to the number of days from and including December 5, 2012 through and including January 15, 2013 over 360) of 2.00% and the aggregate outstanding principal balance of the Loans, excluding all defaulted Loans and all purchased Loans, as of the first day of the related collection period (the period from the 5th day of the immediately preceding calendar month through the 4th day of the calendar month in which a payment date occurs, and for the first payment date, the period from and including December 5, 2012, to the close of business on January 4, 2013).

The Company also serves as administrator to the Issuer under an administration agreement, which includes customary representations, warranties and covenants.

At March 31, 2014 and December 31, 2013, the Asset Backed Notes had an outstanding principal balance of $63.8 million and $89.6 million, respectively.

Under the terms of the Asset Backed Notes, the Company is required to maintain a reserve cash balance, funded through interest and principal collections from the underlying securitized debt portfolio, which may be used to pay monthly interest and principal payments on the Asset-Backed Notes. The Company has segregated these funds and classified them as Restricted Cash. There was approximately $4.8 million and $6.3 million of Restricted Cash as of March 31, 2014 and December 31, 2013, respectively, funded through interest collections.

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Convertible Senior Notes

In April 2011, the Company issued $75.0 million in aggregate principal amount of 6.00% convertible senior notes (the Convertible Senior Notes) due 2016. As of March 31, 2014, the carrying value of the Convertible Senior Notes, comprised of the aggregate principal amount outstanding less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes, is approximately $72.8 million.

The Convertible Senior Notes mature on April 15, 2016 (the Maturity Date), unless previously converted or repurchased in accordance with their terms. The Convertible Senior Notes bear interest at a rate of 6.00% per year payable semiannually in arrears on April 15 and October 15 of each year, commencing on October 15, 2011. The Convertible Senior Notes are the Company s senior unsecured obligations and rank senior in right of payment to the Company s existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Senior Notes; equal in right of payment to the Company s existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company s secured indebtedness (including unsecured indebtedness that the Company later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company s subsidiaries, financing vehicles or similar facilities.

Prior to the close of business on the business day immediately preceding October 15, 2015, holders may convert their Convertible Senior Notes only under certain circumstances set forth in the Indenture. On or after October 15, 2015 until the close of business on the scheduled trading day immediately preceding the Maturity Date, holders may convert their Convertible Senior Notes at any time. Upon conversion, the Company will pay or deliver, as the case may be, at the Company s election, cash, shares of the Company s common stock or a combination of cash and shares of the Company s common stock. The conversion rate will initially be 84.0972 shares of common stock per $1,000 principal amount of Convertible Senior Notes (equivalent to an initial conversion price of approximately $11.89 per share of common stock). The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, if certain corporate events occur prior to the Maturity Date, the conversion rate will be increased for converting holders. As of March 31, 2014, the conversion rate was 86.5029 shares of common stock per $1,000 principal amount of Convertible Senior Notes (equivalent to an adjusted conversion price of approximately $11.56 per share of common stock).

The Company may not redeem the Convertible Senior Notes prior to maturity. No sinking fund is provided for the Convertible Senior Notes. In addition, if certain corporate events occur, holders of the Convertible Senior Notes may require the Company to repurchase for cash all or part of their Convertible Senior Notes at a repurchase price equal to 100% of the principal amount of the Convertible Senior Notes to be repurchased, plus accrued and unpaid interest through, but excluding, the required repurchase date.

The Convertible Senior Notes are accounted for in accordance with ASC 470-20 (previously FASB Staff Position No. APB 14- 1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)). In accounting for the Convertible Senior Notes, the Company estimated at the time of issuance that the values of the debt and the embedded conversion feature of the Convertible Senior Notes were approximately 92.8% and 7.2%, respectively. The original issue discount of 7.2% attributable to the conversion feature of the Convertible Senior Notes was recorded in capital in excess of par value in the consolidated statement of assets and liabilities. As a result, the Company recorded interest expense comprised of both stated interest expense as well as accretion of the original issue discount resulting in an estimated effective interest rate of approximately 8.1%.

As of March 31, 2014 (unaudited) and December 31, 2013, the components of the carrying value of the Convertible Senior Notes were as follows:

(in thousands)	As of March 31, 2014	As of December 31, 2013
Principal amount of debt	$ 75,000	$ 75,000
Original issue discount, net of accretion	(2,211)	(2,481)
Carrying value of debt	$ 72,789	$ 72,519

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For the three-months ended March 31, 2014 and 2013 (unaudited), the components of interest expense, fees and cash paid for interest expense for the Convertible Senior Notes were as follows:

	Three Months Ended March,	
(in thousands)	**2014**	**2013**
Stated interest expense	$ 1,125	$ 1,125
Accretion of original issue discount	271	271
Amortization of debt issuance cost	144	144
Total interest expense	$ 1,540	$ 1,540
Cash paid for interest expense	$	$

The estimated effective interest rate of the debt component of the Convertible Senior Notes, equal to the stated interest of 6.0% plus the accretion of the original issue discount, was approximately 8.1% for both the three-months ended March 31, 2014 and 2013. As of March 31, 2014, the Company is in compliance with the terms of the indentures governing the Convertible Senior Notes.

Wells Facility

In August 2008, the Company entered into a $50.0 million two-year revolving senior secured credit facility with Wells Fargo Capital Finance (the Wells Facility). On June 20, 2011, the Company renewed the Wells Facility. Under this three-year senior secured facility, Wells Fargo Capital Finance has made commitments of $75.0 million. The facility contains an accordion feature, in which the Company can increase the credit line up to an aggregate of $300.0 million, funded by additional lenders and with the agreement of Wells Fargo Capital Finance and subject to other customary conditions. The Company expects to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Wells Facility.

On August 1, 2012, the Company entered into an amendment to the Wells Facility. The amendment reduces the interest rate floor by 75 basis points to 4.25% and extends the maturity date by one year to August 2015. Additionally, an amortization period of 12 months was added to pay down the principal balance as of the maturity date, and the unused line fee was reduced.

Borrowings under the Wells Facility will generally bear interest at a rate per annum equal to LIBOR plus 3.50%, with a floor of 4.25% and an advance rate of 50% against eligible debt investments. The Wells Facility is secured by debt investments in the borrowing base. The Wells Facility requires payment of a non-use fee on a scale of 0.0% to 0.50% of the average monthly outstanding balance. The monthly payment of a non-use fee thereafter shall depend on the average balance that was outstanding on a scale between 0.0% and 0.50%. For the three-month period ended March 31, 2014, this non-use fee was approximately $101,000. On June 20, 2011 the Company paid an additional $1.1 million in structuring fees in connection with the Wells Facility which is being amortized through the end of the term.

The Wells Facility includes various financial and operating covenants applicable to the Company and the Company s subsidiaries, in addition to those applicable to Hercules Funding II, LLC. These covenants require the Company to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $362.0 million plus 90% of the cumulative amount of equity raised after June 30, 2012. In addition, the tangible net worth covenant will increase by 90 cents on the dollar for every dollar of equity capital that the Company subsequently raises. As of March 31, 2014, the minimum tangible net worth covenant has increased to $478.5 million as a result of the Company s follow-on public offerings. The Wells Facility provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. The Company was in compliance with all covenants at March 31, 2014.

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At March 31, 2014 there were no borrowings outstanding on this facility.

Union Bank Facility

On February 10, 2010, the Company entered a $20.0 million one-year revolving senior secured credit facility with Union Bank (the Union Bank Facility). On November 2, 2011, the Company renewed and amended the Union Bank Facility and added a new lender under the Union Bank Facility. Union Bank and RBC Capital Markets (RBC) have made commitments of $30.0 million and $25.0 million, respectively. The Union Bank Facility contains an accordion feature, in which the Company can increase the credit line up to an aggregate of $150.0 million, funded by additional lenders and with the agreement of Union Bank and subject to other customary conditions. The Company expects to continue discussions with various other potential lenders to join the new facility; however, there can be no assurances that additional lenders will join the Union Bank Facility.

On March 30, 2012 the Company entered into an amendment to the Union Bank Facility which permitted the Company to issue additional senior notes relating to the offer and sale of the Company s 2019 Notes. On September 17, 2012, the Company entered into an amendment to the Union Bank Facility. Pursuant to the terms of the amendment, the Company is permitted to increase the Company s unsecured indebtedness by an aggregate original principal amount not to exceed $200.0 million incurred after March 30, 2012 in one or more issuances, provided certain conditions are satisfied for each issuance.

On December 17, 2012, the Company further amended the Union Bank Facility to remove RBC from the Union Bank Facility. Following the removal of RBC, the Union Bank Facility consists solely of Union Bank s commitment of $30.0 million. In connection with the amendment, the maximum availability under the Union Bank Facility, subject to a borrowing base, was reduced from $55.0 million to $30.0 million. The Union Bank Facility contains an accordion feature, in which the Company could increase the credit line by up to $95.0 million in the aggregate, funded by commitments from additional lenders and with the agreement of Union Bank and subject to other customary conditions. There can be no assurances that additional lenders will join the Union Bank Facility.

Borrowings under the Union Bank Facility will generally bear interest at a rate per annum equal to LIBOR plus 2.25% with a floor of 4.0%. The Union Bank Facility requires the payment of a non-use fee of 0.50% annually. For the three-month period ended March 31, 2014, this nonuse fee was $37,500. The Union Bank Facility is collateralized by debt investments in the Company s portfolio companies, and includes an advance rate equal to 50.0% of eligible debt investments placed in the collateral pool. The Union Bank Facility generally requires payment of interest on a monthly basis. All outstanding principal is due upon maturity.

The Union Bank Facility requires various financial and operating covenants. These covenants require the Company to maintain certain financial ratios and a minimum tangible net worth in an amount, when added to outstanding subordinated indebtedness, that is in excess of $314.0 million plus 90% of the amount of net cash proceeds received from the sale of common stock after March 31, 2011. As of March 31, 2014, the minimum tangible net worth covenant has increased to $472.8 million as a result of follow-on public offerings. Union Bank Facility also provides for customary events of default, including, but not limited to, payment defaults, breach of representations or covenants, bankruptcy events and change of control. The Company was in compliance with all covenants at March 31, 2014.

At March 31, 2014 there were no borrowings outstanding on this facility. The Company Further amended the Union Bank Facility on January 31, 2014. As amended, the Union Bank Facility will expire as of May 2, 2014. The Company continues to explore potential financing arrangements with Union Bank that may be implemented following the expiration of the Union Bank Facility.

Citibank Credit Facility

The Company, through Hercules Funding Trust I, an affiliated statutory trust, had a securitized credit facility (the Citibank Credit Facility) with Citigroup Global Markets Realty Corp. which expired under normal terms. During the first quarter of 2009, the Company paid off all principal and interest owed under the Citibank Credit Facility. Citigroup has an equity participation right through a warrant participation agreement on the pool of debt investments and warrants collateralized under the Citibank Credit Facility. Pursuant to the warrant participation agreement, the Company granted to Citigroup a 10% participation in all warrants held as collateral. However, no additional warrants were included in collateral subsequent to the facility amendment on May 2, 2007. As a result, Citigroup is entitled to 10% of the realized gains on the warrants until the realized gains paid to Citigroup pursuant to the agreement equal $3,750,000 (the Maximum Participation Limit). The obligations under the warrant participation agreement continue even after the Citibank Credit Facility is terminated until the Maximum Participation Limit has been reached.

During the three-months ended March 31, 2014, the Company reduced the Company s realized gain by approximately $78,000 for Citigroup s participation in the gain on sale of equity securities which were obtained from exercising a portfolio company warrant which was included in the collateral pool. The Company recorded a decrease on participation liability and an increase on unrealized appreciation by a net amount of approximately $45,000 as a result of current quarter depreciation of fair value on the pool of warrants collateralized under the warrant participation agreement. The value of their participation right on unrealized gains in the related equity investments was approximately $325,000 as of March 31, 2014 and is included in accrued liabilities. There can be no assurances that the unrealized appreciation of the warrants will not be higher or lower in future periods due to fluctuations in the value of the warrants, thereby increasing or reducing the effect on the cost of borrowing. Since inception of the agreement, the Company has paid Citigroup approximately $1.7 million under the warrant participation agreement thereby reducing the Company s realized gains by this amount. The Company will continue to pay Citigroup under the warrant participation agreement until the Maximum Participation Limit is reached or the warrants expire. Warrants subject to the Citigroup participation agreement are set to expire between February 2016 and March 2017.

5. Income taxes

The Company has elected to be taxed as a RIC under Subchapter M of the Code and intends to continue to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, will not be subject to federal income tax on the portion of taxable income and gains distributed to stockholders.

To qualify as a RIC, the Company is required to meet certain income and asset diversification tests in addition to distributing at least 90% of its investment company taxable income, as defined by the Code. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is based upon the annual earnings estimated by the management of the Company. To the extent that the Company s earnings fall below the amount of dividends declared, however, a portion of the total amount of the Company s dividends for the fiscal year may be deemed a return of capital for tax purposes to the Company s stockholders.

Taxable income includes the Company s taxable interest, dividend and fee income, as well as taxable net capital gains. Taxable income generally differs from net income for financial reporting purposes due to temporary and permanent differences in the recognition of income and expenses, and generally excludes net unrealized appreciation or depreciation, as gains or losses are not included in taxable income until they are realized.

Taxable income includes non-cash income, such as changes in accrued and reinvested interest and dividends, which includes contractual payment-in-kind interest, and the amortization of discounts and fees. Cash collections of income resulting from contractual PIK interest arrangements or the amortization of discounts and fees generally occur upon the repayment of the loans or debt securities that include such items. Non-cash taxable income is reduced by non-cash expenses, such as realized losses and depreciation and amortization expense.

During the three-months ended March 31, 2014, the Company declared a distribution of $0.31 per share. The determination of the tax attributes of the Company s distributions is made annually as of the end of the Company s fiscal year based upon its taxable income for the full year and distributions paid for the full year. As a result, a determination made on a quarterly basis may not be representative of the actual tax attributes of the Company s distributions for a full year. If the Company had determined the tax attributes of our distributions year-to-date as of March 31, 2014, approximately 100% would be from ordinary income and spillover earnings from 2013. However there can be no certainty to shareholders that this determination is representative of what the tax attributes of its 2013 distributions to shareholders will actually be.

As a RIC, the Company will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless the Company distributes in a timely manner an amount at least equal to the sum of (1) 98% of its ordinary income for each calendar year, (2) 98.2% of its capital gain net income for the 1-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, in the preceding year (the Excise Tax Avoidance Requirements). The Company will not be subject to excise taxes on amounts on which the Company is required to pay corporate income tax (such as retained net capital gains). Depending on the level of taxable income earned in a tax year, the Company may choose to carry over taxable income in excess of current year distributions from such taxable income into the next tax year and pay a 4% excise tax on such income, as required. The maximum amount of excess taxable income that may be carried over for distribution in the next year under the Code is the total amount of dividends paid in the following year, subject to certain declaration and payment guidelines. To the extent the Company chooses to carry over taxable income into the next tax year, dividends declared and paid by the Company in a year may differ from taxable income for that year as such dividends may include the distribution of current year taxable income, the distribution of prior year taxable income carried over into and distributed in the current year, or returns of capital.

Taxable income for the three-month period ended March 31, 2014 was approximately $12.3 million or $0.20 per share. Taxable net realized gains for the same period were $3.5 million or approximately $0.06 per share. Taxable income for the three-month period ended March 31, 2013 was approximately $14.7 million or $0.27 per share. Taxable net realized gains for the same period were $1.1 million or approximately $0.02 per share.

The Company intends to distribute approximately $3.8 million of spillover earnings from the year ended December 31, 2013 to our shareholders in 2014.

6. Shareholders Equity

On August 16, 2013, the Company entered into an At-The-Market (ATM) equity distribution agreement with JMP Securities LLC (JMP). The equity distribution agreement provides that the Company may offer and sell up to 8.0 million shares of its common stock from time to time through JMP, as its sales agent. Sales of the Company s common stock, if any, may be made in negotiated transactions or transactions that are deemed to be at the market, as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on the NYSE or similar securities exchange or sales made to or through a market maker other than on an exchange, at prices related to the prevailing market prices or at negotiated prices. There were no sales under the ATM Program for the three-months ended March 31, 2014.

The Company has issued stock options for common stock subject to future issuance, of which 770,417 and 833,923 were outstanding at March 31, 2014 and December 31, 2013, respectively.

7. Equity Incentive Plan

The Company and its stockholders have authorized and adopted the 2004 Equity Incentive Plan (the 2004 Plan) for purposes of attracting and retaining the services of its executive officers and key employees. Under the 2004 Plan, the Company is authorized to issue 7.0 million shares of common stock. On June 1, 2011, stockholders approved an amended and restated plan and provided an increase of 1.0 million shares, authorizing the Company to issue 8.0 million shares of common stock under the 2004 Plan.

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The Company and its stockholders have authorized and adopted the 2006 Non-Employee Director Plan (the 2006 Plan and, together with the 2004 Plan, the Plans) for purposes of attracting and retaining the services of its Board of Directors. Under the 2006 Plan, the Company is authorized to issue 1.0 million shares of common stock. The Company filed an exemptive relief request with the Securities and Exchange Commission (SEC) to allow options to be issued under the 2006 Plan which was approved on October 10, 2007.

On June 21, 2007, the stockholders approved amendments to the 2004 Plan and the 2006 Plan allowing for the grant of restricted stock. The amended Plans limit the combined maximum amount of restricted stock that may be issued under both Plans to 10% of the outstanding shares of the Company s stock on the effective date of the Plans plus 10% of the number of shares of stock issued or delivered by the Company during the terms of the Plans. The amendments further specify that no one person shall be granted awards of restricted stock relating to more than 25% of the shares available for issuance under the 2004 Plan. Further, the amount of voting securities that would result from the exercise of all of the Company s outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 25% of its outstanding voting securities, except that if the amount of voting securities that would result from such exercise of all of the Company s outstanding warrants, options and rights issued to the Company s directors, officers and employees, together with any restricted stock issued pursuant to the Plans, would exceed 15% of the Company s outstanding voting securities, then the total amount of voting securities that would result from the exercise of all outstanding warrants, options and rights, together with any restricted stock issued pursuant to the Plans, at the time of issuance shall not exceed 20% of our outstanding voting securities.

The following table summarizes the common stock options activities for the three-months ended March 31, 2014 and 2013 (unaudited):

	For the Three Months Ended March 31,			
	2014		2013	
	Common Stock Options	Weighted Average Exercise Price	Common Stock Options	Weighted Average Exercise Price
Outstanding at December 31,	833,923	$ 12.53	2,574,749	$ 12.00
Granted		$	27,000	$ 12.16
Exercised	(61,755)	$ 11.77	(80,256)	$ 11.31
Forfeited	(1,751)	$ 11.39	(4,613)	$ 9.65
Expired		$		$
Outstanding at March 31,	770,417	$ 12.59	2,516,880	$ 12.03
Shares Expected to Vest at March 31,	518,046	$ 12.59	408,065	$ 12.03

The following table summarizes common stock options outstanding and exercisable at March 31, 2014 (unaudited):

(Dollars in thousands, except exercise price)	Options outstanding				Options exercisable			
Range of exercise prices	Number of shares	Weighted average remaining contractual life	Aggregate intrinsic value	Weighted average exercise price	Number of shares	Weighted average remaining contractual life	Aggregate intrinsic value	Weighted average exercise price
$4.21 - $9.25	50,640	2.99	$ 401,575	$ 6.14	37,469	2.39	$ 338,090	$ 5.05
$9.90 - $14.86	601,277	5.16	1,041,241	$ 12.56	214,902	3.14	713,075	$ 10.75
$15.44 - $16.13	118,500	6.60		$ 15.46				$
$4.21 - $16.13	770,417	5.24	$ 1,442,816	$ 12.59	252,371	3.03	$ 1,051,165	$ 9.90

Options generally vest 33% one year after the date of grant and ratably over the succeeding 24 months. All options may be exercised for a period ending seven years after the date of grant. At March 31, 2014, options for

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approximately 252,000 shares were exercisable at a weighted average exercise price of approximately $9.90 per share with weighted average of remaining contractual term of 3.03 years.

The Company determined that the fair value of options granted under the 2006 and 2004 Plans during the three-months ended March 31, 2013 was approximately $54,000. No options were granted during the three-months ended March 31, 2014. During the three-months ended March 31, 2014 and 2013, approximately $140,000 and $95,000 of share-based cost due to stock option grants was expensed, respectively. As of March 31, 2014, there was $1.0 million of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 2.30 years.

The fair value of options granted is based upon a Black Scholes option pricing model using the assumptions in the following table for the three-month period ended March 31, 2013. No options were granted during the three-months ended March 31, 2014.

	Three Months Ended March 31, 2013
Expected Volatility	46.90%
Expected Dividends	10%
Expected term (in years)	4.5
Risk-free rate	0.65% - 0.80%

During the three-months ended March 31, 2014 the Company did not grant any restricted stock pursuant to the Plans. During the three-months ended March 31, 2013, the Company granted approximately 606,001 shares of restricted stock pursuant to the Plans. See Subsequent Events .

The Company determined that the fair value of restricted stock granted under the 2006 and 2004 Plans during the three-month period ended March 31, 2013 was approximately $7.7 million. No shares of restricted stock were granted during the three-months ended March 31, 2014. During the three-month periods ended March 31, 2014 and 2013, the Company expensed approximately $1.4 million and $1.1 million of compensation expense related to restricted stock, respectively. As of March 31, 2014, there was approximately $8.6 million of total unrecognized compensation costs related to restricted stock. These costs are expected to be recognized over a weighted average period of 2.09 years.

The following table summarizes the activities for our unvested restricted stock for the three-months ended March 31, 2014 and 2013 (unaudited):

	For the Three-Month Period Ended March 31, 2014		**2013**	
	Restricted Stock Units	**Weighted Average Exercise Price**	**Restricted Stock Units**	**Weighted Average Exercise Price**
Unvested at December 31	1,035,897	$ 11.94	899,789	$ 10.73
Granted		$	606,001	$ 12.72
Vested	(284,490)	$ 12.21	(201,263)	$ 10.39
Forfeited		$	(6,076)	$ 10.54
Unvested at March 31,	751,407	$ 11.84	1,298,451	$ 11.71

The SEC, through an exemptive order granted on June 22, 2010, approved amendments to the Plans which allow participants to elect to have the Company withhold shares of the Company s common stock to pay for the exercise price and applicable taxes with respect to an option exercise (net issuance exercise). The exemptive order also permits the holders of restricted stock to elect to have the Company withhold shares of Hercules stock

to pay the applicable taxes due on restricted stock at the time of vesting. Each individual can make, and does not preclude the participant from electing to make, a cash payment at the time of option exercise or to pay taxes on restricted stock.

8. Earnings Per Share

Shares used in the computation of the Company s basic and diluted earnings per share are as follows (unaudited):

(in thousands, except per share data)	Three Months Ended March 31, 2014	2013
Numerator		
Net increase in net assets resulting from operations	$ 22,185	$ 16,689
Less: Dividends declared-common and restricted shares	(19,165)	(13,382)
Undistributed earnings	3,020	3,307
Undistributed earnings-common shares	3,020	3,307
Add: Dividend declared-common shares	18,928	13,051
Numerator for basic and diluted change in net assets per common share	$ 21,948	$ 16,358
Denominator		
Basic weighted average common shares outstanding	60,870	53,682
Common shares issuable	1,825	141
Weighted average common shares outstanding assuming dilution	62,695	53,823
Change in net assets per common share		
Basic	$ 0.36	$ 0.30
Diluted	$ 0.35	$ 0.30

For the purpose of calculating diluted earnings per share for three-months ended March 31, 2014 and 2013, the dilutive effect of the Convertible Senior Notes under the treasury stock method is included in this calculation because the Company s share price was greater than the conversion price in effect ($11.56 and $11.78, respectively) for the Convertible Senior Notes for such period.

The calculation of change in net assets resulting from operations per common share assuming dilution, excludes all anti- dilutive shares. For the three-months ended March 31, 2014 and 2013, the number of anti-dilutive shares, as calculated based on the weighted average closing price of the Company s common stock for the periods, was approximately 797,489 and 2,630,003 shares, respectively.

At March 31, 2014, the Company was authorized to issue 100,000,000 shares of common stock with a par value of $0.001. Each share of common stock entitles the holder to one vote.

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9. Financial Highlights

Following is a schedule of financial highlights for the three-months ended March 31, 2014 and 2013:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Per share data:		
Net asset value at beginning of period	$ 10.51	$ 9.75
Net investment income[1]	0.30	0.28
Net realized gain on investments	0.08	0.03
Net unrealized depreciation on investments	(0.02)	(0.01)
Total from investment operations	0.36	0.30
Net increase/(decrease) in net assets from capital share transactions	(0.01)	0.18
Distributions	(0.31)	(0.25)
Stock-based compensation expense included in investment income[2]	0.03	0.02
Net asset value at end of period	$ 10.58	$ 10.00
Ratios and supplemental data:		
Per share market value at end of period	$ 14.07	$ 12.25
Total return[3]	(12.42%)	14.59%
Shares outstanding at end of period	61,760	61,554
Weighted average number of common shares outstanding	60,870	53,682
Net assets at end of period	$ 653,302	$ 615,608
Ratio of operating expense to average net assets	10.74%	12.23%
Ratio of net investment income before provision for income tax expense and investment gains and losses to average net assets	11.26%	11.54%
Average debt outstanding	$ 536,110	$ 593,940
Weighted average debt per common share	$ 8.81	$ 11.06

(1) Net investment income per share is calculated as net investment income divided by the weighted average shares outstanding.

(2) Stock option expense is a non-cash expense that has no effect on net asset value. Pursuant to ASC 718, net investment loss includes the expense associated with the granting of stock options which is offset by a corresponding increase in paid-in capital.

(3) The total return for the three-month periods ended March 31, 2014 and 2013 equals the change in the ending market value over the beginning of the period price per share plus dividends paid per share during the period, divided by the beginning price assuming the dividend is reinvested on the date of the distribution.

10. Commitments and Contingencies

The Company s commitments and contingencies consist primarily of unused commitments to extend credit in the form of loans to the Company s portfolio companies. The balance of unfunded contractual commitments to extend credit at March 31, 2014 totaled approximately $189.4 million. Approximately $95.6 million of these unfunded contractual commitments as of March 31, 2014 are dependent upon the portfolio company reaching certain milestones before the debt commitment becomes available. Since a portion of these commitments may expire without being drawn, unfunded contractual commitments do not necessarily represent future cash requirements. In addition, the Company had approximately $238.0 million of non-binding term sheets outstanding at March 31, 2014. Non-binding outstanding term sheets are subject to completion of the Company s due diligence and final approval process, as well as the negotiation of definitive documentation with the prospective portfolio companies. Not all non-binding term sheets are expected to close and do not necessarily represent the Company s future cash requirements.

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Certain premises are leased under agreements which expire at various dates through March 2020. Total rent expense amounted to approximately $388,000 and $329,000 during the three-month periods ended March 31, 2014 and 2013, respectively. Future commitments under the credit facility and operating leases were as follows at March 31, 2014:

		Payments due by period (in thousands)			
Contractual Obligations[(1)(2)]	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**
Borrowings[(3)(4)]	$ 497,135	$	$ 63,782	$ 72,789	$ 360,564
Operating Lease Obligations[(5)]	7,309	1,514	2,987	1,551	1,257
Total	$ 504,444	$ 1,514	$ 66,769	$ 74,340	$ 361,821

(1) Excludes commitments to extend credit to our portfolio companies.
(2) The Company also has a warrant participation agreement with Citigroup. See Note 4 to the Company s consolidated financial statements.
(3) Includes $190.2 million in borrowings under the SBA debentures, $170.4 million of the 2019 Notes, $63.8 million in aggregate principal amount of the Asset-Backed Notes and $72.8 million of the Convertible Senior Notes.
(4) Except for the Convertible Senior Notes, all carrying values are the same as the principal amount outstanding. The aggregate principal amount outstanding of the Convertible Senior Notes is $75.0 million less the unaccreted discount initially recorded upon issuance of the Convertible Senior Notes. The total unaccreted discount for the Convertible Senior Notes was $2.2 million at March 31, 2014.
(5) Long-term facility leases.

The Company may, from time to time, be involved in litigation arising out of its operations in the normal course of business or otherwise. Furthermore, third parties may try to seek to impose liability on the Company in connection with the activities of its portfolio companies. While the outcome of any current legal proceedings cannot at this time be predicted with certainty, the Company does not expect any current matters will materially affect the Company s financial condition or results of operations; however, there can be no assurance whether any pending legal proceedings will have a material adverse effect on the Company s financial condition or results of operations in any future reporting period.

11. Recent Accounting Pronouncements

In June 2013, the FASB issued ASU 2013-08, Financial Services Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements, which amends the criteria that define an investment company and clarifies the measurement guidance and requires new disclosures for investment companies. Under ASU 2013-08, an entity already regulated under the 1940 Act is automatically an investment company under the new GAAP definition, so the Company has concluded that there is no impact from adopting this standard on the Company s statement of assets and liabilities or results of operations. The Company has adopted this standard for its fiscal year ending December 31, 2014.

12. Subsequent Events

Dividend Declaration

On April 28, 2014 the Board of Directors declared a cash dividend of $0.31 per share to be paid on May 19, 2014 to shareholders of record as of May 12, 2014. This dividend represents the Company s thirty-fifth consecutive dividend declaration since our initial public offering, bringing the total cumulative dividend declared to date to $9.37 per share.

Restricted Stock Units Grants

In April 2014, the Company granted approximately 982,000 restricted stock units pursuant to the Plans.

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Portfolio Company Developments

As of March 31, 2014, the Company held warrants or equity positions in four companies that have filed registration statements on Form S-1 with the SEC in contemplation of potential initial public offerings, including Box, Inc., Dance Biopharm, Inc. and two companies which filed confidentially under the JOBS Act. In addition, subsequent to March 31, 2014 the following portfolio company completed an initial public offering:

1. In April 2014, Glori Energy, Inc. (NASDAQ: GLRI), a Hercules portfolio company, completed a $185 million reverse merger with Infinity Cross Border Acquisition Corp. (NASDAQ: INXB) and closed a share tender offer and a warrant tender offer.

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Schedule 12-14

HERCULES TECHNOLOGY GROWTH CAPITAL, INC.

SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES

(Unaudited)

As of and for the three-months ended March 31, 2014

(in thousands)

Portfolio Company	Investment(1)	Amount of Interest Credited to Income(2)	As of December 31, 2013 Fair Value	Gross Additions(3)	Gross Reductions (4)	As of March 31, 2014 Fair Value
Affiliate Investments						
Gelesis, Inc.	Preferred Stock		466	26		492
	Preferred Warrants		7		(2)	5
Optiscan BioMedical, Corp.	Preferred Stock		4,552	245		4,797
	Preferred Warrants		232	3		235
Stion Corporation	Senior Debt	1,475	4,096	164	(91)	4,169
	Preferred Warrants		1,628		(133)	1,495
Total Control and Affliate Investments		$ 1,475	$ 10,981	$ 438	$ (226)	$ 11,193

(1) Stock and warrants are generally non-income producing and restricted. The principal amount for debt is shown in the Consolidated Schedule of Investments as of March 31, 2014.
(2) Represents the total amount of interest or dividends credited to income for the period an investment was an affiliate or control investment.
(3) Gross additions include increases in the cost basis of investments resulting from new portfolio investments, paid-in-kind interest or dividends, the amortization of discounts and closing fees and the exchange of one or more existing securities for one or more new securities. Gross additions also include net increase in unrealized appreciation or net decreases in unrealized depreciation.
(4) Gross reductions include decreases in the cost basis of investments resulting from principal repayments or sales and the exchange of one or more existing for one or more new securities. Gross reductions also include net increase in unrealized depreciation or net decreases in unrealized appreciation.

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$100,000,000

6.25% Notes due 2024

PROSPECTUS SUPPLEMENT

Joint Book-Running Managers

Keefe, Bruyette & Woods	**Jefferies**	**RBC Capital Markets**
A Stifel Company		

Co-Managers

BB&T Capital Markets	**Janney Montgomery Scott**	**JMP Securities**	**Sterne Agee**

The date of this prospectus supplement is July 9, 2014